Impact of Financial Acumen and Stability Management on Investment Decision Making: A Special Reference to the IT/ITES Industry in Sri Lanka

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សង្ខិត្តន័យ

ការស្រាវជ្រាវនេះបានសិក្សាអំពីកត្តាជះឥទ្ធិពលលើដំណើរការនៃការសម្រេចចិត្តរបស់អ្នកវិនិយោគទុន នៅពេលដែលពួកគេស្វែងរកផលចំណេញប្រកបដោយនិរន្តរភាពពីការបណ្ដាក់ទុន ។ យោងទៅលើគោលជំហរនៃនិស្ស័យបែបវិជ្ជមាន និងការស្រាវជ្រាវដោយប្រើប្រាស់វិធីសាស្ត្រធ្វើតេស្តសម្មតិកម្ម ការសិក្សានេះផ្តោតលើសំណាកពីអ្នកជំនាញក្នុងឧស្សាហកម្ម IT/ITES សរុបចំនួន ១៥,០០០ នាក់នៅប្រទេសស្រីលង្កា ។ អ្នកជំនាញទាំងនេះត្រូវបានជ្រើសរើសយកជាសំណាកតាមរបៀបចែងន្យ៉ាងនិងចេកជាក្រុម ។ ការសិក្សានេះសម្រេចដោយគ្រប់ផ្នែកប្រមាណនៃការស្រាវជ្រាវ ដោយប្រើកម្រងសំណួរដែលមានរចនាសម្ព័ន្ធ និងចម្លើយម៉ឺយដែលអាចយកជាការបាន ភាពជឿទុកចិត្ត ទំនាក់ទំនងរវាងអថេរម្ចួយចំនួន និងការធ្វើតេស្តសម្មតិកម្មតាមរយៈសមីការវ៉ិគ្រេសស៊ីនដោយប្រើកម្មវិធី SPSS v.27 ។ ដំបូង ដើម្បីបញ្ជាក់ភាពបានការនិងភាពជឿជាក់នៃចម្លើយ យើងបានវាយតម្លៃដោយប្រើរូបមន្តដូចជា KMO, Bartlett's និង Cronbach's Alpha ។ បន្ទាប់មកយើងវិភាគទំនាក់ទំនងរវាងអថេរដែលពាក់ព័ន្ធ និងធ្វើតេស្តសម្មតិកម្មបង្ហាញពីទំនាក់ទំនងវិជ្ជមានពីកម្រិតមធ្យមទៅខ្ពស់រវាងអថេរហានិភ័យនៃការបណ្ដាក់ទុន ស្ថិរភាពសេដ្ឋកិច្ច និងចំណេះដឹងហិរញ្ញវត្ថុលើការសម្រេចចិត្តវិនិយោគ ដែលស្របតាមការរកឃើញរបស់អ្នកសិក្សាស្រាវជ្រាវដែលបានបោះពុម្ពផ្សាយកន្លងមកផងដែរ ។ របកគំហើញនៃការសិក្សាស្រាវជ្រាវនេះផ្តល់នូវការយល់ដឹងដ៏មានតម្លៃដល់អ្នកវិនិយោគ ឱ្យបានដឹងអំពី ភាពលម្អៀងច្បាស់លាស់ក្នុងដំណើរការសម្រេចចិត្តវិនិយោគ ប្រកបដោយភាពសមស្រប និងគួរឱ្យទុកចិត្ត ។

Abstract

This research delves into the determinants influencing the decision-making processes of individual investors as they seek sustainable returns on investments. Adopting a positivist philosophical stance and employing a deductive approach, the study focuses on a sample of 15,000 professionals from the IT/ITES industry in Sri Lanka, selected through a stratified simple random

sampling method. The study successfully achieves its objectives by employing a structured questionnaire, with responses analyzed primarily for validity, reliability, correlation, and regression using SPSS v27. Initially, validity and reliability are assessed using KMO, Bartlett's, and Cronbach's alpha, confirming the validity and reliability of the responses. Subsequently, correlation and regression analyses demonstrate the positive and moderate to strong relationships between investment risk exposure, economic stability, and financial knowledge on investment decision-making, consistent with the literature review findings. The study's research findings provide valuable insights for investors to recognize potential biases in their investment decision-making processes, facilitating the ability to make well-informed and sound investment decisions.

1. Introduction

Sri Lanka, the "Pearl of the Indian Ocean," has a strategic geographical location, with a population of 22.2 million and a per capita income of USD 3,474 (Central Bank of Sri Lanka [CBSL], 2023). The country's strategic position has historically drawn global investors due to its accessibility to key regional markets like India, Pakistan, and China. However, Sri Lanka's journey towards peace and economic development post-2009 civil war has been marred by a series of exogenous shocks, including the 2019 Easter bombings, the pandemic outbreak in 2020, and political unrest in 2022 (Wattegama, 2021; Abeyagoonasekera, 2023). These events, compounded by governance issues and corruption, have hindered its progress towards becoming a developed nation. Economically, Sri Lanka has witnessed a declining GDP, with a 7.8% drop in 2022 compared to a 3.5% growth in 2021 (CBSL, 2021; CBSL, 2022). The country's economy is driven by agriculture, manufacturing, and services, with the service sector contributing 57% to the gross domestic product (GDP) (CBSL, 2022). In the service sector, prominent contributors encompass industries such as tourism, information technology (IT), and business process management (BPM). However, it is noteworthy that while the agriculture sector has experienced growth since 2018, both manufacturing and services have seen significant declines. In reviewing Sri Lanka's economic performance, a significant uptick in foreign direct investment is evident, climbing from USD 113.7 million in the previous quarter to USD 158.7 million by September 2023 (Board of Investment [BOI], 2023) CBSL, 2023).

Conversely, the country's total debt reached USD 25.005 billion as of November 2023 (International Monetary Fund [IMF], 2023) BOI, 2023). Common investment avenues in Sri Lanka include mutual funds, stocks, and deposits, with mutual funds experiencing a significant decline by the end of the first quarter of 2022, with total assets under management decreasing by 8% to LKR 178 billion (approximately USD 0.5 billion) (Unit Trust Association [UTA], 2023). Additionally, the equity market in Sri Lanka has seen a steady decline from USD 28.694 billion in January 2022 to USD 13.122 billion in December 2023 (Colombo Stock Exchange [CSE], 2023); CSE, 2022). Moreover, total deposits in Sri Lanka have gradually decreased to USD 45.119 billion in July 2023 from USD 60.418 billion in February 2022 (CBSL, 2023; CBSL, 2022). Deriving from the evidence, the volatilities within the financial and economic realms contributed to a bankruptcy in Sri Lanka in April 2022. Additionally, the nation's trade deficit, dwindling worker remittances, and the downturn in tourism revenue attributed to external shocks have compounded the economic adversities (Cassim, 2022; Bhowmick, 2022a; Bhowmick, 2022b).

The services sector, especially tourism, IT and BPM, is crucial for economic growth. The IT/ITES industry, contributing nearly 2% of the GDP in 2022, is a significant foreign currency earner. With over 80 organizations and a labor force of 150,000, this sector is poised for growth (Sri Lanka Association for Software Services Companies [SLASSCOM], 2023). The presence of a highly qualified workforce, especially in fields like accounting and law, and English fluency, gives Sri Lanka a competitive edge in attracting foreign direct investments (Export Development Board [EDB], 2023; Oxford Business Group [OBG], 2023; SLASSCOM, 2022). However, the recent economic crisis has adversely affected all industries, including IT/ITES. Key challenges such as power outages, fuel shortages, workforce migration, and resource limitations have impacted the sector's performance and growth potential (Abeyagoonasekera, 2023; Inland Revenue Department [IRD], 2021). While Sri Lanka's strategic location and skilled workforce present significant opportunities, particularly in the IT/ITES industry, its economic challenges and governance issues pose substantial hurdles to realizing its full potential.

Furthermore, looking into a holistic landscape of investment decisions across varied sectors within the country, Investors in Sri Lanka are increasingly favoring low-risk investments like term deposits over high-risk investments such as shares, despite the potential for higher returns in the long term. This trend is influenced by various economic factors, including rising living expenses, high taxes, and financial instability (Dissanayake, 2022; Ondaatjie, 2022; Hamza, 2022; IRD, 2019; IRD, 2021). Economic stability in Sri Lanka is significantly impacted by variables such as interest rates, inflation rates, foreign exchange rates, and government tax policies (Badullahewage & Jayewardenepura, 2018; Campa & Goldberg, 2000). These factors play a crucial role in shaping investor decisions, and they have witnessed a surge in Sri Lanka compared to neighboring countries like India (Gaurav et al., 2023; Chandak & Mishra, 2023;

Ratnasabapathy, 2023). Furthermore, macroeconomic variables have been causing fluctuations in the equities traded on the Colombo Stock Exchange (CSE, 2021; CSE, 2022). Recent annual reports from CSE indicate a substantial decline in turnover and the number of trades, with a 41% decrease in turnover and a 25% reduction between 2021 and 2022 (CSE, 2022). Conversely, commercial banks have seen an increase in time and savings deposits, with an 11% increase in 2021, suggesting a shift towards safer investment options (CBSL, 2022). Moreover, the decline in the stock market, exacerbated by economic and political crises, has eroded investor confidence. The stock market had to be temporarily closed for five days, leading to significant losses for investors (Madurapperuma, 2022; Dimitropoulos & Asteriou, 2009). Consequently, many investors are turning to safer options, such as fixed deposits in commercial banks, which offer attractive interest rates (Jayasinghe & Ghoshal, 2022). Re-establishing investor confidence is crucial for the country's economic recovery, but the scars from the recent crisis may take time to heal.

Moreover, investors need financial knowledge to analyze and manage the risks associated with their investments. One significant challenge faced by investors in Sri Lanka is the need for more financial knowledge (Balagobei & Prashanthan, 2021; Tennekoon & Liyanage, 2021). Investors frequently seek a comprehensive understanding of the range of investment products available to them and often lean towards traditional options such as term deposits for their perceived stability (Misra et al., 2021). Nevertheless, Misra et al. (2021) argue that equity investments offer better potential returns and inflation-beating capabilities but require a deeper understanding of financial statements, stock valuation, strategic analysis, and future performance prediction. Many individual investors lack this necessary knowledge, primarily due to their non-financial professional backgrounds.

Despite the wealth of research on the determinants of investor behavior, there remains an unexplored area regarding individual investors in Sri Lanka's IT/ITES industry. This study endeavors to fill this gap by offering a comprehensive analysis of the factors that influence the investment choices of individual investors within IT/ITES industry. The study is structured *to examine key factors influencing "investor risk exposure," economic stability," and "investor's knowledge" on "investment decision-making."*

The subsequent sections of this study are organized as follows: Initially, a literature review is conducted to evaluate existing research on investment decisions, risk exposure in investments, economic stability, financial literacy, and expertise, supplemented by a theoretical foundation. This is followed by the methodology section, which outlines the research approach, justifies the chosen variables, and presents the hypotheses, culminating in discussing the study's ethical considerations. Subsequently, the data analysis phase is undertaken, examining the data's validity and reliability, demographic breakdown, and descriptive statistics, concluding with testing the hypotheses. The paper then thoroughly discusses, ultimately summarizing the key findings and exploring their potential implications.

2. Literature Review and Theoretical Framework

Investment decision-making is pivotal in financial planning, allocating financial resources toward endeavors that promise the most lucrative returns (Madaan & Singh, 2019). Insights derived from studies conducted in both the service and manufacturing sectors emphasize that the act of making investment decisions is essentially a journey towards securing long-term financial prosperity, all while balancing the need for immediate consumption against the potential for future gains (Nagy & Obenberger, 1994; Pike & Neale, 2018, pp. 122). This delicate equilibrium serves as a fundamental principle in comprehending the motivations and behaviors of investors. As Blume (2021) suggests, investment decision-making is a systematic process geared towards augmenting wealth and attaining financial independence. Furthermore, investigations spanning various developing economies underscore the connection between investment decisions and disposable income, which is intricately influenced by economic variables like inflation and taxation (Isidore & Arun, 2022). In contrast, research on Europe shed light on the fact that behavioral biases profoundly impact investment decision-making. It transcends conventional financial analysis, focusing instead on the influence of human emotions, behaviors, and sentiments in shaping investment choices (Slovic, 1972; Kumar & Goyal, 2015; Zahara & Bansal, 2018; Marquit, 2023).

Additionally, insights from the oil and gas industry emphasize that investment decision-making entails a thorough assessment of an organization's current capabilities through analytical techniques, serving as a yardstick for evaluating the performance of investments (Macmillan, 2000). A study rooted in South Asia posits that investment decision-making is intricately interwoven with available investment opportunities and the growth of income levels (Kathuria & Singhania, 2012). Furthermore, an investigation within the European service sectors defines *investment decision-making* as a multifaceted process influenced by a hierarchy of factors, including financial considerations, relational dynamics, diversification strategies, and geographical factors (Newell & Seabrook, 2006). Lastly, research centered on the Information Systems (IS)/Information Technology (IT) domain characterizes investment decision-making as a multifarious process encompassing various techniques for evaluating capital investments (Ballantine & Stray, 1998).

In development studies, risk, which refers to the probability of actual outcomes deviating from expected ones, is crucial for investors when making decisions (Corporate Finance Institute [CFI], 2023). This inherent fear of capital loss propels investors toward more secure options like fixed deposits or government bonds with lower yields. Investors are categorized by Neale and Bill (2018) into three types based on their risk tolerance: risk lovers (who prefer high risk for greater returns), risk-averse (who opt for lower risks and returns), and risk-neutral (who are indifferent to risk levels). Research from both developed and developing countries reveals that individual behavioral traits significantly influence risk aversion, subsequently affecting investment choices (Mulyani et al., 2021; Pak & Mahmood, 2015; Saivasan & Lokhande, 2022; Hyll & Irrek, 2015). A study from Indonesia by Mulyani et al. (2021) emphasizes the crucial role of managing investment risk in capital market decision-making. Lakshmanasamy (2021) and Arnold and Lewis (2019) highlight that systematic or market risk, which includes factors like interest rates, inflation, and exchange rates, is a key aspect of risk exposure that investors cannot control and significantly impacts their decisions. Virlics (2013) and Peterson (2009) state that risk is inherent in all investments, but diversification can effectively manage it. Diversification in the manufacturing sector mitigates unsystematic risk, aiding in balanced decision-making (Markowitz, 1991; Arnold & Lewis, 2019; Somathilake, 2020). Research on Europe and Asia indicates that risk exposure varies based on application, especially in socially responsible investments where risks pertain to social and ethical issues affecting shareholder values and decisions (Renneboog, 2007). Finally, studies from Germany demonstrate that investment risk can be reduced through support mechanisms like feed-in tariffs and premiums, positively influencing investor decision-making (Kitzing & Weber, 2014). Nonetheless, effective investment risk exposure mitigation significantly enhances investors' decision-making processes.

Economic stability, as highlighted by Oppers (2011), Badullahewage and Jayewardenepura (2018), and Hubbard (2016), is critical for investment decisions. Investors favor environments with stable growth, low risks, and predictable economic and political landscapes. The stability of a country's interest rate, inflation, and taxation plays a significant role in attracting investments. Interest rates, a central aspect of macroeconomic policy, are a key consideration for investors. As Marshall (1980) and Keynes (2018) discussed, interest represents the cost of using capital, reflecting the expected return on investments. Arnold and Lewis (2019) emphasize that the cost of capital or required rate of return is a fundamental metric in investment decision-making. Interest rates influence investors whether they use their savings or borrow capital. Studies by Still (2023), Suyuan

and Khurshid (2015), Lian, Ma and Wang (2018) confirm the significant influence of interest rates on investment decisions. Harchaoui et al. (2005) and the Canadian Imperial Bank of Commerce [CIBC] (2022) further detail how fluctuations in interest rates, often driven by inflation, can either stimulate or deter investment activities.

Inflation is another critical factor affecting economic stability and investment behavior. Braggion et al. (2023) found that high inflation rates can reduce stock investments as investors divert funds to meet essential needs. Chisti et al. (2015), Appleby (2022), Gregorio (2012), Fahlevi (2019), and Oner (2012) discuss how inflation, especially caused by factors like rising oil prices, can disrupt supply chains and increase the cost of essential goods, thereby affecting the residual income of investors and overall economic stability. Moreover, Central banks often respond to inflation by adjusting interest rates, which impacts investment decisions. Nevertheless, taxation also significantly influences investment decisions. Bazley et al. (2019), Alves (2019), Streeter (2022), Tanzi and Zee (2001) highlight the role of tax policies in shaping economic activities. High tax rates can discourage investments by reducing disposable income and expected returns, as shown in the research by Rostam-Afschar and Unsorg (2020) and supported by World Bank Group (2018/23) findings. The negative impacts of high taxation on investment activities are evident in developing economies like Sri Lanka, where recent tax policies have led to reduced incentives for earning and investing, as noted by Kapilan (2023), Ondaatjie (2022), and PWC (2023). Overall, economic stability, shaped by interest rates, inflation, and taxation, is vital for making informed investment decisions.

CFI (2022) defines that financial literacy involves a key understanding of financial concepts, such as budgeting, investing, taxation, borrowing, and saving. This knowledge equips individuals to manage their finances effectively and prepare for unforeseen events like economic downturns or inflation spikes. Balagobei and Prashanthan (2021), Alaaraj and Bakri (2020) underscore that financial literacy enables individuals, particularly investors, to make more informed decisions than those with less financial knowledge. A financially literate person understands how money operates and grows in the financial and investment markets, which guides them in making timely and appropriate investment choices. The knowledge an investor possesses plays a crucial role in avoiding financial losses. For instance, investments like fixed deposits in commercial banks, considered low risk, require less financial knowledge (Rachapaettayakom et al., 2020). In contrast, equities or mutual funds investments demand higher financial literacy to evaluate factors like share prices, company performance, and industry prospects (Atmaningrum

et al., 2021; Fields & Bisschoff, 2014). This distinction highlights the importance of financial literacy in understanding the risks and returns associated with different investment opportunities.

Moreover, the study focused on emerging economies, including Sri Lanka demonstrates a comprehensive view of financial literacy. It highlights that financial literacy extends beyond a basic understanding of investments to encompass knowledge about diversifying and effectively managing investment risks (Balagobei & Prashanthan, 2021; Seraj et al., 2022). Further, the findings of this study underscore a strong positive relationship between investment knowledge and the investment decisions of individual investors. Complementing these findings, Tennekoon and Liyanage (2021) provide key evidence on the impact of financial literacy on investment choices or investment decision-making. Their study revealed that most respondents with low financial literacy preferred traditional investment options like savings accounts and fixed deposits. At the same time, a significant portion had not invested in stocks. It indicates that a higher degree of financial literacy is associated with a wider array of investment options and a readiness to engage with more sophisticated investment opportunities.

Furthermore, study findings across Asia and Europe indicate that an individual's educational background and prior experience are key factors in influencing their investment choices (Subagio et al., 2020), emphasizing the vital importance of financial education and experience in enhancing one's ability to make informed investment decisions. A robust understanding of financial concepts enables individuals to make informed investment choices, understand and manage risks, and explore a wider range of investment options, ultimately leading to better financial outcomes.

Furthermore, by exploring diverse theories within the realm of management studies, one can establish a linkage between the tenets of portfolio theory and the process of making investment decisions. Portfolio theory, also known as Modern Portfolio Theory (MPT), is a framework for assembling a portfolio of assets in such a way that it maximizes the expected return for a given level of risk or, equivalently, minimizes risk for a given level of expected return (Markowitz, 1991; Blume, 1970; Mangram, 2013). Developed by Harry Markowitz in 1952, it's a foundational concept in the field of financial investment. The portfolio theory mainly assesses the expected return of a portfolio and the risk of a portfolio.

The anticipated return of a portfolio is computed as the sum of the expected returns of its constituent assets, weighted by their respective proportions within the portfolio. In equation 1, the $E(R_p)$ represents the expected return of the portfolio, Wi denotes the weight of asset i in the portfolio and $E(R_i)$ signifies the expected return of the asset. This can be mathematically expressed as follows:

Equation 1. Expected Average Return standard formula

$$E(R_p) = \sum w_i E(R_i)$$

Furthermore, the risk assessment of a portfolio is determined by considering the variance or standard deviation of its returns. It's crucial to note that the portfolio's risk isn't solely a result of averaging the risks of its individual assets but is also influenced by the correlation among these assets. In equation 2, σ_p^2 represents the variance of the portfolio's return, $w_i w_j$ signifies the weights of the ith and jth assets, $\sigma_i \sigma_j$ denotes the standard deviations of returns for assets i and j and, the ρ_{ij} represents the correlation coefficient between the returns of the assets i and j.

Equation 2. Risk of Portfolio Returns standard formula

$$\sigma_p^2 = \sum_{i=1}^{n} \sum_{j=1}^{n} w_i w_j \sigma_i \sigma_j \sigma \rho_{ij}$$

Additionally, portfolio theory encompasses critical concepts such as diversification, which entails investing in diverse assets to mitigate the portfolio's overall risk. The primary rationale behind this approach is to offset the negative effects of underperforming investments with those that exhibit robust performance.

3. Research Method

Building upon the insights from existing literature, this study primarily concentrates on key independent variables: Investment Risk Exposure, Economic Stability, and Financial Knowledge to predict the dependent variable of "Investment Decision-Making." The research adopts a positivist philosophical perspective, aligning with positivism's objective and empirical nature. Methodologically, the study follows a deductive approach, commencing with established theories and hypotheses and subsequently testing these through empirical observation. In terms of its methodological format, the study is characterized as quantitative mono-method research. This approach emphasizes the collection and analysis of numerical data to conclude. The primary tool for data gathering in this study is questionnaire surveys, a method well-suited for quantitatively assessing the views and responses of a large sample. Furthermore, the study is structured around cross-sectional time series data. This means the data is collected simultaneously rather than longitudinally over multiple periods. Such a time horizon is particularly effective for capturing a snapshot of the variables and their relationships at a specific moment, providing a clear and concise overview of the current state of affairs in the context of Investment Decision-Making.

According to reports from the Department of Labor (DOL, 2022; DOL, 2021) and SLASSCOM (2020), the

workforce in Sri Lanka comprises approximately 8.4 million individuals, with roughly 150,000 professionals engaged in the IT/ITES industry. The most prominent IT/ITES firms are in the Western Province of Sri Lanka (SLASSCOM 2020). As a result, this study specifically targets individuals from the IT/ITES industry within the Western Province, focusing on those with the potential to be individual investors. The IT/ITES professionals, known for their comparatively higher incomes, are identified as potential investors in the diverse investment opportunities available in Sri Lanka. The research adopts a probability sampling technique named stratified simple random sampling technique, considering gender as the strata, as the target population comprises both males and females. Approximately 87% of the IT/ITES industry workforce is estimated to be male, with 13% being female (DOL, 2022). Accordingly, a sample of 10% of males and females is selected, totaling 15,000 professionals, including 13,050 males and 1,950 females. To ensure the effective data validation of the study's objectives, professionals who earn a monthly salary below LKR 100,000 are excluded from the sampling procedures. Besides, the following research framework and hypotheses development are proposed in Fig. 1.

Hypothesis 1: Investment risk exposure has a positively significant impact on investment decision-making.

Hypothesis 2: Economic stability has a positively significant impact on investment decision-making.

Hypothesis 3: Financial Knowledge has a positively significant impact on investment decision-making.

Furthermore, the data collection was conducted using a structured questionnaire survey. This questionnaire was meticulously developed and subsequently reviewed to ensure accuracy and relevance. A pilot test for questionnaire corrections was made before its distribution among the sample population. The validity of the data gathered was rigorously assessed using two key statistical measures: The measurement test of questionnaire items of the Kaiser-Meyer-Olkin (KMO) and Bartlett's Test of Sphericity (BTS). These tests are instrumental in evaluating the suitability of the data for structural detection, with KMO focusing on sampling adequacy and BTS examining variances between hypotheses. In addition to validity, the reliability of the study was also a focal point, ensuring that the results were consistent and error-free. This aspect of the study was evaluated using Cronbach's Alpha, a renowned test for measuring internal consistency within a scale. Finally, the results were analyzed using SPSS 27, enabling a thorough and detailed examination of the data collected. This methodological approach ensures a robust framework for data collection, validation, and analysis, underpinning the integrity and reliability of the research findings.

In summary, adhering to the highest ethical research standards, this study was meticulously designed to ensure confidentiality, informed consent, and respect for the participants' rights. Before the data collection process, all participants were informed about the purpose of the research contents and the nature of their involvement and assured of their anonymity in disseminating findings. All participants were treated with the utmost confidentiality, and data was stored securely to prevent unauthorized access. Ethical considerations also extended to the accuracy and honesty in data reporting and analysis, ensuring that the findings presented are a true and fair representation of the data collected. This commitment to ethical research practice not only enhances the study's credibility but also upholds the integrity of the research process, reflecting a dedication to the principles of responsible and ethical scholarship.

4. Results and Findings

The gathered data encompasses demographic information and details pertinent to the dependent and independent variables. This data underwent a cleaning process before being analyzed with SPSS v27 software. Analyses such as the Kaiser-Meyer-Olkin (KMO) and Bartlett's Test of Sphericity were employed alongside correlation,
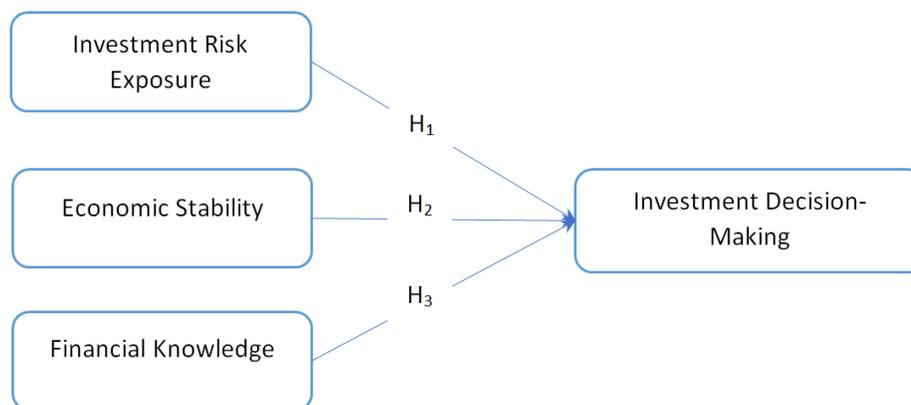

Fig. 1: Conceptual framework of investment risk exposure, economic stability, and financial knowledge towards investment decision-making.

Table 1: The results of KMO and Bartlett's test.

Variables	KMO (>0.5)	Bartlett's test (<0.05)
Investment risk exposure	0.814	x^2: 474 *p-value*: 0.000
Economic stability	0.785	x^2: 831 *p-value*: 0.000
Financial knowledge	0.774	x^2: 528 *p-value*: 0.000
Investment decision making	0.857	x^2: 614 *p-value*: 0.000

regression, and ANOVA tests. The study specifically targeted 15,000 professionals in the IT/ITES industry who have a disposable income of at least Sri Lanka Rupee[1] 100,000 (Table 1). The study's validity was evaluated by employing the KMO and Bartlett's test of sphericity (Shrestha, 2021). Then, the reliability test was employed to assess the study's reliability (Fields & Bischoff, 2014).

The results of the validity assessments are presented in Table 1.

The results of the reliability tests are detailed in Table 2.

According to the findings, the KMO test exhibits significance by surpassing the 0.5 threshold, mirroring Bartlett's test, which also attains significance with results below the 0.05 threshold. As a result, these results substantiate the validity of the study. Additionally, Cronbach's alpha indicates significance by surpassing the 0.7 threshold, thereby confirming the reliability of the study.

Moreover, the demographic analysis of 15,000 respondents in the IT/ITES industry reveals a young workforce, with 66% aged between 25 and 26 years and 26% between 26 and 35 years. Only 8.0% fell within the 36 to 45 age group. This workforce is gender-balanced, comprising 87% males and 13% females. Regarding marital status, 70% were single, and 30% were married. All respondents completed secondary education; 76% held an undergraduate degree, 49% had a postgraduate degree, and 39% possessed professional qualifications. Moreover, salary-wise, 72% earned between LKR 100,001 to 200,000, 21% between LKR 200,001 to 300,000, 4.0% between LKR 301,000 to 400,000, and 3.0% above LKR 400,000. Banking and investment habits showed that 84% had bank accounts, while 15% did not. Only 23% had CDS accounts for equities trading, with 77% not participating. Investment preferences included savings or fixed deposits (90%), gold or other commodities (31%), shares or equities (16%), and insurance (11.4%). Lesser-chosen investments were real estate (6.7%), government securities (3.8%), and corporate bonds (1.0%). Regarding savings, 23% saved below 10,000 LKR, 52.4% between LKR 10,001 to 50,000, 4.0% between LKR 50,001 to 100,000, and surprisingly, 20% saved over LKR 100,000 monthly.

[1] During the period of the study, the exchange rate was 1 US Dollar equivalent to 324.42 Sri Lanka Rupees (LKR).

Furthermore, descriptive statistics are pivotal in augmenting data visualization, synthesis, and presentation, facilitating clear and effective conveyance of information. This method guarantees that data is formatted straightforwardly and insightfully for its audience. Table 3 presents an exhaustive analysis of descriptive test and correlation matrix outcomes, effectively demonstrating the practicality of this methodology.

The correlation matrix illuminates the interconnections among pivotal variables, specifically investment decision-making, investment risk exposure, economic stability, and financial knowledge. The results from the correlation matrix distinctly indicated a moderate to strong correlation among these variables. Furthermore, the findings imply a noteworthy interrelation between the independent variables—investment risk exposure, economic stability, and financial knowledge—and the dependent variable, investment decision-making. Furthermore, the descriptive statistics reveal nuanced insights into the respondents' perceptions regarding investment risk exposure, economic stability, financial knowledge, and investment decision-making. For investment risk exposure, the average score of 3.769 indicates a moderate level of risk exposure among respondents.

The clustering of responses towards the higher end, as indicated by the mode and median values around 3.83 to 4, suggests a concentration of individuals who perceive relatively higher levels of risk. However, the slight leftward skew (-0.663) and moderate variability (standard deviation of 0.606) imply the presence of respondents with lower risk perceptions, albeit in fewer numbers. Regarding economic stability, the mean score of 3.714 suggests a slightly lower perception compared to investment risk exposure. The clustering of values towards the upper end is still observed, albeit less pronounced, with a mode and median of 3.67. The more pronounced left skew (-0.908) indicates a greater proportion of respondents with lower perceptions of economic stability compared to the distribution observed in investment risk exposure. In terms of financial knowledge, the mean score drops further to 3.591, indicating a relatively lower level of perceived knowledge among respondents.

The distribution of responses across the scale is more even, as evidenced by the mode and median values. The negligible skewness (-0.013) and slightly smaller standard

Table 2: The results of the reliability test.

Variables	Cronbach's Alpha (>0.7)
Investment risk exposure	0.843
Economic stability	0.814
Financial knowledge	0.785
Investment decision making	0.910

Table 3: The results of the correlation matrix (n = 15,000).

Variables	Mean	SD	1	2	3	4
1-Investment decision making	3.73	0.586	1.00			
2-Investment risk exposure	3.769	0.606	0.894**	1.00		
3-Economic stability	3.714	0.608	0.684**	0.589**	1.00	
4-Financial knowledge	3.591	0.581	0.563**	0.414**	0.615**	1.00

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

deviation (0.581) suggest a symmetrical distribution of responses, reflecting a relatively consistent perception of financial knowledge among respondents. In the realm of investment decision-making, the mean score of 3.73 mirrors the pattern observed in investment risk exposure, indicating a similar level of agreement or certainty among respondents. The clustering of values towards the higher end, as indicated by the mode and median, suggests a tendency towards more positive perceptions of investment decision-making. However, the moderate leftward skew (-0.756) implies the presence of respondents with lower perceptions of their decision-making abilities, contributing to a more varied distribution of responses.

These statistics reveal varying levels of agreement or certainty among respondents across different categories, with a general tendency towards higher scores in all areas. However, the spread of scores and skewness indicates differing perceptions and experiences among respondents, highlighting the complexity of individual attitudes toward investment-related factors.

The regression model includes three independent variables ("Investment Risk Exposure," "Economic Stability," and "Financial Knowledge") to understand their relationship with the dependent variable, "Investment Decision-Making." The findings of the study involve interpreting the coefficients of these variables and assessing their significance in predicting or explaining variations in investment decision-making. The high R and R-square values of 0.924 and 0.854, respectively suggest that the model, which includes "Investment Risk Exposure," "Economic Stability," and "Financial Knowledge" as predictors, has a strong overall ability to explain the variability in "Investment Decision-Making." The Adjusted-R Square value of 0.849 accounts for the model's complexity, and the low standard error of the Estimate, 0.227, indicates a relatively small spread of residuals, supporting the model's precision in predicting the dependent variable. The regression model appears to be a good fit for explaining and predicting "Investment Decision-Making," with the included predictors contributing significantly to the model's explanatory power.

Additionally, examining the ANOVA test statistics reveals that the statistically significant F-statistic underscores the effectiveness of the overall regression model (comprising "Investment Risk Exposure," "Economic Stability," and "Financial Knowledge") in elucidating the fluctuations in "Investment Decision-Making." The negligible *p-value* of 0.000 (Sig. = 0.05) further bolsters the rejection of the null hypothesis, indicating that at least one of the predictors significantly contributes to explaining the variability in the dependent variable. However, the Residual section indicates some unexplained variability in the dependent variable not captured by the model. Based on the ANOVA findings, the regression model holds statistical significance, and the combined predictors exert a discernible influence on "investment decision-making." The research systematically progresses towards the examination of hypotheses. Additionally, considering the results obtained from the regression analysis outlined in Table 4, the subsequent model estimation is put forth.

Moreover, the proposed model estimate is as follows:
Equation 3. Model estimate on factors that influence investment decision-making

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3$$

Where: β0 is unstandardized constant coefficient; β(1-3) is standardized coefficient beta values.

$$Y = -0.091 + 0.739X_1 + 0.146X_2 + 0.167X_3$$

The study's findings indicate a significant relationship between the independent and dependent variables, confirming the proposed hypotheses. Notably, the relationship between investment decision-making and risk exposure is strong, positive, and statistically significant, with a correlation coefficient (r) of 0.894 and a *p-value* of 0.000 less than 0.05. This implies that changes in risk exposure substantially influence investment decisions. The strength of this impact is further highlighted by a high beta coefficient of 0.739, suggesting that investment decisions are significantly affected as risk exposure increases. The relationship's significance is reinforced by an R-squared value of 0.854, indicating that risk exposure accounts for about 85.4% of the variance in investment decision-making. This is further supported by the high F and t-values of 196.62 and 15.64, respectively.

Similarly, the study identifies a moderately positive and statistically significant relationship between

Table 4: The result of coefficient statistics.

Model	Unstandardized coefficients		Standardized coefficients	t-value	Sig. p-value
	β	Std. Error	(β)Beta		
(Constant)	-0.091	0.168		-0.540	
Investment risk exposure (X1)	0.715	0.046	0.739	15.640	0.000
Economic stability (X2)	0.140	0.052	0.146	2.672	0.000
Financial knowledge (X3)	0.168	0.049	0.167	3.448	0.000

a. Dependent Variable (Y): Investment decision-making.

investment decision-making and economic stability, with a correlation coefficient of 0.684 and a *p-value* of 0.000 less than 0.05. Despite a positive correlation, as indicated by a beta coefficient of 0.146, economic stability has a comparatively weaker influence on investment decision-making. The same R-squared value of 0.854 is noted, suggesting a strong model fit, yet it does not distinctly differentiate the unique impact of economic stability. The lower t-value of 2.672, compared to investment risk exposure, indicates a significant but less pronounced effect of economic stability on investment decisions.

Additionally, a moderate yet statistically significant correlation is observed between investment decision-making and financial knowledge, with a correlation coefficient of 0.563 and a *p-value* of 0.000 less than 0.05. The beta coefficient of 0.167 for financial knowledge suggests that increased financial acumen moderately enhances investment decision-making. The consistency in R-squared and F values across all variables underscores the robustness of the overall model. While indicating statistical significance, the t-value of 3.448 for financial knowledge suggests its impact is less dominant compared to investment risk exposure.

In conclusion, the analysis highlights that investment risk exposure is the most influential factor in investment decision-making, followed by financial knowledge and economic stability. Each factor significantly contributes to the decision-making process, albeit with varying degrees of influence. The high R-squared value for all variables emphasizes the strength and reliability of the model in explaining a substantial portion of the variations in investment decision-making.

5. Discussion

The study aimed to identify and analyze factors influencing individual investors' decisions to provide recommendations for sustainable investment returns. The study effectively addressed its objectives using a research questionnaire and statistical analyses employing Pearson correlation and multiple regression analysis using SPSS v27. The threshold of regression analysis, as recommended by Hair et al. 2019, R-square and adjusted R-square must be greater than 0.10 (10%), the t-value should be greater than 1.96, and the significance of the *p-value* should be less than 0.05 (or 5%) at the confidence interval of 95% were adopted to evaluate the results of this research findings.

According to Table 4 and Equation 3, the relationship between investment risk exposure and investment decision-making is positively influenced by 73.9% (β1 = 0.739), with a t-value of 15.640 exceeding 1.96 and a significance level of the *p-value* at 0.000, which is less than 0.05, resulting in the acceptance of hypothesis 1. Moreover, economic stability positively impacts investment decision-making by 14.6% (β2 = 0.146), with a t-value of 2.672 greater than 1.96, and a significance level of the *p-value* at 0.000, which is less than 0.05, leading to the acceptance of hypothesis 2. In addition, financial knowledge positively influences investment decision-making by 16.7% (β3 = 0.167), supported by a t-value of 3.448, surpassing the critical threshold of 1.96, and further confirmed by the significance of the *p-value* at 0.000, which is below the conventional threshold of 0.05, thereby confirming the acceptance of hypothesis 3. Thus, investment risk exposure is the most critical factor in enhancing investment decision-making.

Relating these findings to existing literature, the study corroborates the significant relationships among the identified variables impacting individual investors' decisions. The study identified three independent variables—Investment risk exposure, economic stability, and financial knowledge—demonstrating their significant influence on investment decision-making. The study's findings affirm the significant relationships as predicted by the portfolio theory. Furthermore, the literature review supplements the study's conclusions. Previous studies conducted by Mulyani et al. (2021), Pak and Mahmood (2015), Saivasan and Lokhande (2022) emphasize the impact of risk on investment decisions. Similarly, research by Oppers (2011), Still (2023), Suyuan and Khurshid (2015), Lian et al. (2018), Appleby (2022), and Alves (2019) supports the influence of economic stability on investment decisions. Finally, studies by Balagobei and Prashanthan (2021), Tennekoon and Liyanage (2021), Atmaningrum et al. (2021) affirm the positive relationships between financial knowledge and investment decisions, aligning with the current study's findings.

The research outcomes indicate diverse risks linked to making investment decisions, specifically encompassing

investment risk exposure, economic stability, and financial knowledge. Moreover, when employing portfolio theory to analyze these findings and derive both the portfolio return and risk, a hypothetical portfolio constructed with a combination of 40% Investment Risk Exposure, 30% Economic Stability, and 30% Financial Knowledge (represented as independent variables - IRE for Investment Risk Exposure, ES for Economic Stability, and FK for Financial Knowledge, as a proxy for various investment categories) was examined.

Equation 4. Expected Average Return Integrated into the Study Findings

$$Expected\ Return\ on\ Portfolio$$
$$= (Weight_{IRE} \times Mean_{IRE}) + (Weight_{ES} \times Mean_{ES})$$
$$+ (Weight_{FK} \times Mean_{FK})$$

Applying this approach, the anticipated return for the hypothetical portfolio is projected to be around 3.699. This value represents the weighted average of expected returns derived from three distinct investment categories: Investment risk exposure, economic stability, and financial knowledge, each weighed by their respective portfolio allocation. In simple terms, for each unit of investment allocated to this portfolio, investors anticipate a return of 3.699 units, potentially manifesting as dividends, interest, or capital appreciation.

Furthermore, the interrelationships among the independent and dependent factors can serve as a proxy for the associations between the independent variables. To illustrate, the correlation between independent variables like IRE (Investment Risk Exposure) and ES (Economic Stability) can be approximated using the multiplication of the correlations between IRE and the dependent variable (ID - Investment Decision-Making) and ES and ID (Correlation IRE_ES = Correlation IRE_ID × Correlation ES_ID). Additionally, determining the covariance between independent variables involves the product of the correlation between two independent variables and their respective standard deviations (Covariance IRE_ES = Correlation IRE_ES × Standard Deviation IRE × Standard Deviation ES). Moreover, the computation of portfolio variance is as follows:

Equation 5. Risk of Portfolio Return Integrated into the Study Findings

$$Portfolio\ Variance$$
$$= (Weight_{IRE}^2 \times standard\ Deviation_{IRE}^2)$$
$$+ (Weight_{ES}^2 \times standard\ Deviation_{ES}^2)$$
$$+ (Weight_{FK}^2 \times standard\ Deviation_{FK}^2)$$
$$+ (Weight_{IRE} \times Weight_{ES} \times Covariance_{IRE\ ES} \times 2)$$
$$+ (Weight_{IRE} \times Weight_{FK} \times Covariance_{IRE\ FK} \times 2) + (Weight_{FK}$$
$$\times Weight_{ES} \times Covariance_{FK\ ES} \times 2)$$
$$Portfolio\ Standard\ Deviation\ (Risk) = \sqrt{Portfolio\ Variance}$$

The portfolio risk (Standard Deviation) is estimated to be 0.492. This value quantifies the portfolio's overall risk, considering the investments' individual risks and their correlation. A lower standard deviation indicates less volatility or risk in the portfolio, and vice versa if the standard deviation is high. In the most practical terms,

the evaluation can be compared against the portfolio's historical standard deviation Figures.

Nevertheless, applying portfolio theory in this hypothetical scenario vividly illustrates an effective approach to analyzing optimal investment decisions. The study's outcomes harmonize with a fundamental tenet of portfolio theory, which involves combining diverse investment types, each with unique risk and return attributes. This amalgamation aims to craft a portfolio that maximizes potential returns for a given level of risk. In this context, the amalgamation of Investment Risk Exposure, Economic Stability, and Financial Knowledge is under scrutiny to strike a balance between the overall risk and return of the portfolio based on the study's findings and the assumed correlations between these variables. Moreover, employing portfolio theory in this context underscores the significance of the research and highlights the methodology's relevance in evaluating investments within an IT/ITES sector.

6. Conclusion

In summary, the study established a strong correlation between specific independent variables identified within the study's conceptual framework and the dependent variable. Following a comprehensive literature review, three primary independent variables—investment risk exposure, economic stability, and financial knowledge—were pinpointed for examination within the targeted population samples. Data collection occurred through a survey, which was subsequently analyzed using specialized analytical software. The research confirmed that these independent variables, namely investment risk exposure, economic stability, and financial knowledge, significantly influence the investment decision-making of individual investors. Rigorous testing procedures validated the reliability and validity of these identified variables. The study demonstrated a significant correlation between these independent variables, as evidenced by the Pearson correlation coefficient matrix. Furthermore, the utilization of multiple regression analysis reinforced the pivotal role played by these independent variables in shaping the dependent variable. Moreover, the study findings are based on the tenets of portfolio theory. These findings serve as a standard in recognizing the factors shaping investment decisions and guiding investors on implementing portfolio theory principles in their everyday decision-making regarding investments. The study results pave the way for future research to explore the vital role of political and cultural risks in influencing investment decision-making in developing economies such as Sri Lanka.

Furthermore, delving into the study's practical implications, investors in emerging economies such as Sri Lanka stand to gain from its insights. Investors can make more astute and strategic choices by acknowledging

the importance of investment risk exposure, economic stability, and financial knowledge in shaping their investment decisions. The study's emphasis on political and business cultural risk highlights investors' need to meticulously evaluate these factors when appraising investment prospects in emerging economies worldwide. Effectively understanding and addressing these risks can bolster the viability and longevity of investment endeavors within the country. Moreover, integrating the identified pivotal independent variables into investment decision-making processes can aid investors in crafting more comprehensive and efficacious investment strategies tailored to economies resembling that of Sri Lanka. Lastly, the study findings can also serve as a valuable resource for policymakers and financial institutions in similar economies, informing them about the factors influencing investor behavior. This, in turn, can facilitate the formulation of targeted interventions and policies to foster investment growth and stability within the nation.

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Declaration of competing interest

The author has no conflict of interest to declare.

Credit authorship contribution statement

Selvananthan Gopikrishna: Conceptualization, Writing-original draft, Writing-review & editing. The author has read and agreed to the published version of the manuscript.

Data availability statement

Not available

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