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Role of Corporate Social Responsibility between Mental Accounting and Investment Decision-Making

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A B S T R A C T

Purpose-The study aims to explore the role of corporate social responsibility (CSR), specifically its social and environmental dimensions, in moderating the relationship between mental accounting and investment decision-making among Pakistani equity market investors.

Study Design/Methodology/Approach - Primary data was collected through questionnaires distributed in Lahore and Islamabad stock exchanges. The sample included 613 investors, and data analysis was conducted using AMOS. The study analyzed the complete sample and further examined the two CSR dimensions for robustness across genders, distinguishing between male and female investors.

Findings- The results indicate that mental accounting significantly influences investment decisions, with an increase in mental accounting bias correlating with higher investment levels. While the overall CSR score does not show a significant relationship, the social and environmental dimensions positively impact investment decisions. Notably, social CSR significantly moderates mental accounting and investment decisions.

Practical Implications- The investors and policy makers could gain awareness of CSR specifically its social and environmental dimensions.

Originality/Novelty- The study's novelty lies in uncovering the moderating role of CSR between mental accounting and investment decisions.

Keywords: Corporate social Responsibility, Mental Accounting, Investment Decision Making

1 | INTRODUCTION

1.1 | Background of the Study

The World Business Council's emphasis on sustainable development underscores a commitment to economic progress through corporate social responsibility (CSR) initiatives. These activities involve businesses striving to enhance sustainable economic development by collaborating with employees, their families, local communities, and society at large to improve overall quality of life. Sustainability has garnered significant attention in recent years, driven by growing global awareness of climate change and its far-reaching impacts on society and businesses, which directly influence investment decision-making (Rokhayati et al., 2019; Cao et al., 2021).

Corporate social responsibility (CSR) has long been a focal point in management literature, explored from various angles by scholars over the past decades (Rokhayati et al., 2019). CSR is understood as a company's commitment to advancing economic progress in a manner that enhances the well-being of various stakeholders, including employees, their families, and local communities. Moreover, CSR encompasses ethical business conduct, reflecting a firm's dedication to addressing social and environmental concerns alongside its operational activities (Korhonen et al., 2015; Rokhayati et al., 2019).

Currently, corporate social and ethical practices are gaining a significant place in almost all organizations (Hussain et al., 2019). This is because the media has reported various social and ethical scandals that happened in organizations that severely affect the stock market prices and consequently investors' decision-making behavior. All the Stakeholders, internal and external, before finalizing their financial and investment decisions prefer those organizations that incorporate social and ethical obligations in their activities (Naharm & Khurana, 2023). Therefore, people perceive the CSR approach according to their various perceptions. Thus, it is an equivocal concept due to the reason that CSR activities are a combination of social and environmental elements (Reverte, 2009; Ahmed& Noreen, 2021).

There are several studies conducted in Pakistan that highlight the different behavioral finance biases/factors posed by investors and their impact on investor's decision-making process and stock market reactions (Moueed & Hunjra, 2020; Rehan et al., 2021; Ahmad & Noreen, 2021). However, it has not been considered to strengthen the impact of behavioral biases on the investment decision-making of individual regular investors of the stock market in socially responsible organizations in Pakistan. In light of the above discussion, it has been identified that there is no single study in this perspective in Pakistan. Thus, there is a need to conduct a separate and comprehensive investigation to examine and analyze the relationship between mental accounting bias and individual investor's decision-making intentions in socially responsible firms in Pakistan.

The aim is to examine and analyze the impact of mental accounting bias on investment decision making in socially responsible firms which incorporate CSR practices. To the best of our knowledge, this is the first study to combine and investigate such aforementioned factors in one model which would provide a better understanding of these concepts in the field of finance and psychology. The sections of this research paper contained a literature review, research methodology, results and discussions, and conclusion.

1.1 | Research Objectives

The following are the research objectives of the current study:

1. To investigate the impact of mental accounting bias on investment decision-making.
2. To investigate whether corporate social responsibility moderates the relationship between mental accounting and investment decision making or not.

1.2 | Research Questions

1. Is mental accounting positively associated with Investment decision-making?
2. Does corporate social responsibility moderate the relationship between mental accounting and investment decision-making?

2 | LITERATURE REVIEW

2.1 | Mental Accounting and Investment Decision Making

Mental accounting serves as a cognitive strategy employed by individual investors to categorize their investment choices into distinct "mental accounts" and to track various financial activities (Liu et al., 2014; Skwara, 2023). However, this cognitive bias often leads to irrational and detrimental investment decisions (Ahmad & Wu, 2024). Essentially, mental accounting involves individuals partitioning their investment portfolio into separate mental accounts, which they then analyze independently to fulfill specific objectives associated with each segment (de Goeij et al., 2018).

In the realm of psychology, the decision-making process is influenced by three primary components, as elucidated by the mental accounting framework. Firstly, there is the assessment of returns vis-à-vis external circumstances and decision-making. Secondly, attention is given to individual accounts within the mental accounting system. Finally, the frequency at which choices are made available and evaluated also plays a significant role (Cao et al., 2021).

2.2 | Corporate Social Responsibility and Investment Decision Making

According to the Global Reporting Initiative GRI (2021), corporations prefer to be involved in various CSR social and environmental activities in their organizations to fulfill the demands of society and investors. Its main reason is that investors and other people in society prefer to become part of organizations equipped with CSR practices. That’s why corporations should initiate CSR practices in their organizations to attract investors. Various practices of CSR may impact investor’s decisions to invest in any company’s stock and also affect stock market movements. CSR has become increasingly common among businesses in recent years (Hussain et al., 2019). Corporate social responsibility (CSR) activities are very helpful for the stakeholders because these activities are the source to attract investors as a fairness heuristic. This fairness would be the cause of which CSR disclosure items influence their investment decision making (Kostenko et al., 2021). Suteja et al., (2023) posit that corporate social responsibility influences investment decision making. The CSR activities have much importance for the decision-making process (Erawati et al., 2021).

2.3 | Behavioral Biases and Corporate Social Responsibility

Zulfiqar et al. (2019) studied the impact of the internal dimension of CSR on a sample bank employee attitude in Pakistan. This relationship between Corporate Social Responsibility and employee behavior indicates that if organizations initiate better CSR practices to behave socially towards their employees, it will lead to a positive impact on employee engagement and behavior. Sustainability in society has gained an increased importance which has affected both consumers’ and investors’ behavior (Lagerkvist et al., 2020). They stated the fact that the media is quick to report when companies are acting socially irresponsible. So, companies are compelled to incorporate CSR practices in their business activities. Within the context of CSR, the determinants of customer behavior have been examined and analyzed (Saleem & Gopinath, 2015). CSR activities favorably affect customer purchasing intentions directly as well as indirectly through improving brand image and trust (Zhang & Ahmad, 2021). Moreover, customer awareness of CSR activities plays a significant role in this regard.

2.4 | Hypothesis Development

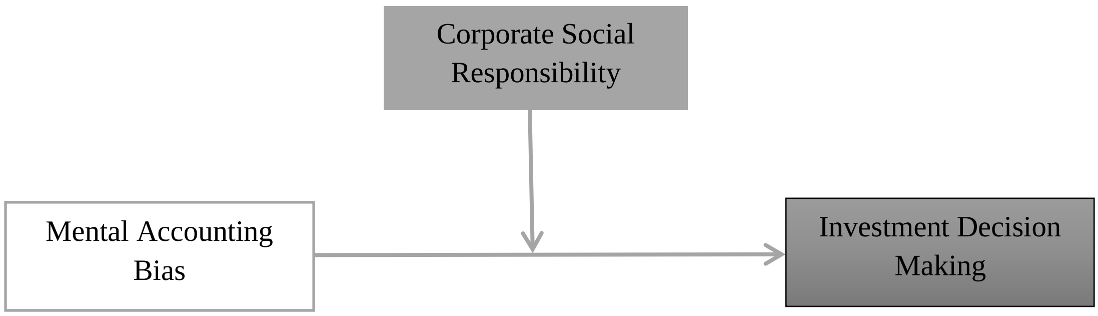
The framework consists of the following independent, dependent, and moderating variables as given below in the theoretical framework. The independent variable (X) is Mental Accounting, and the dependent variable (Y) is Investment decision making whereas corporate social responsibility is the moderator. In this regard, the following are tentative statements of hypotheses:

H1: *Mental accounting is positively associated with Investment decision making.*

H2: *Corporate social responsibility moderates the relationship between mental accounting and investment decision making.*

Figure 1

Conceptual Framework



3 | METHODOLOGY & DESIGN

3.1 | Population

This study was led in Pakistan, so the population of this study is the financial supporters/investors who put their resources into the Pakistan Stock Exchange.

3.2 | Sampling Technique

A random sampling method was utilized in this exploration to collect information from the studied population. This method ensures that results obtained from the sample should approximate what would have been obtained if the entire population had been measured. This method allowed all the units in the population to have an equal chance of being selected.

3.3 | Sample

We conducted our study by selecting individual investors who have invested significant amounts in the Pakistan Stock Exchange. We collected data on various factors such as mental accounting biases, perceptions of corporate social responsibility, and investment decisions directly from these investors. We chose to exclude part-time investors from our data collection process because we believe that their decision-making processes may differ from those of full-time investors.

3.4 | Data Collection

For this study, an essential information course was used, and a simple random sampling method was utilized to focus on respondents. Nonetheless, to get essential information from investors of the stock exchange a definite questionnaire has been developed. An aggregate of 700 investors has been browsed from the stock exchange of Pakistan. Questionnaires have been sent to the investors in the space of the stock exchange, Lahore, and Islamabad. The questionnaires were overseen using offering them to the respondents by interactive connection through web-based media stage and momentarily clarify the significance and thought process of gathering information for research.

3.5 | Research Instrument

The research questionnaire is adopted from past and renowned studies (Shin & Thai, 2015; Hati et al., 2020). The questionnaire is prepared in two sections; the first section is designed to gather the personal information of the respondent like gender, education age, etc. The second section is developed to record the responses relating to the variables of the study. Each construct is comprised of a few questions adopted from previous studies and the responses are recorded on the five-point Likert scale.

4 | RESULTS and ANALYSIS

4.1 | Correlation Analysis

Table 1

Correlation Analysis

	1	2	3
1. Mental Accounting Bias	1		
2. Corporate Social Responsibility	.490**	1	
3. Investment Decision Making	.403**	.387**	1

Pearson correlation is used to measure the direction of the relationship of continuous data. An examination was led to investigate the underlying stipulated hypothetical connections among variables and the results appear in Table above. It reveals the results of correlation (all hypothesized and non-hypothesized relationships) between variables. Investment decision making has a positive correlation with corporate social responsibility and mental accounting. It is observed in the correlation analysis that variables are partially correlated, indicating no multicollinearity. However, it is premature to identify and draw a conclusion keeping view in this correlation analysis. It shows a rough picture of the variables of the study.

Table 2

Regression Analysis

Path	Regression Coefficient	CR	Results
MA → IDM	0.793	4.717	Accepted
CSR → IDM	0.32	1.928	Rejected
MA_CSR→ IDM	-0.002	-0.39	Rejected

Path	Regression Coefficient	CR	Results
MA → IDM	0.517	8.159	Accepted
SCSR → IDM	0.101	1.986	Accepted
MA_SCSR→ IDM	0.009	3.863	Accepted

Path	Regression Coefficient	CR	Results
MA → IDM	0.857	18.45	Accepted
ECSR → IDM	0.431	7.476	Accepted
MA_ECSR→ IDM	-0.008	-3.804	Rejected

The study investigates the relationships between mental accounting, corporate social responsibility (CSR), and investment decision making in the Pakistani equity market. The research utilizes critical ratio (CR) and p-values to assess the significance of hypotheses, employing the bootstrap method to examine moderating variables. The findings reveal a significant positive association between mental accounting and investment decision making ($\beta = 0.793$, $p < 0.001$, CR = 4.717). However, CSR does not show a significant relationship with investment decisions, indicating that Pakistani investors may not prioritize CSR activities in their investment choices. Interestingly, the social dimension of CSR positively influences investment decisions ($\beta = 0.101$, $p < 0.001$, CR = 1.989), suggesting that investors prefer firms engaged in social activities. Furthermore, social CSR activities act as a significant moderator between mental accounting and investment decision making ($\beta = 0.009$, $p < 0.001$, CR = 3.863), highlighting the importance of social engagement in shaping investor behavior.

The study extends its analysis to the environmental dimension of CSR, revealing a substantial direct connection between mental accounting and investment decision making ($\beta = 0.857$, $p < 0.001$, CR = 18.45). Similarly, environmental CSR activities demonstrate a positive correlation with investment decision making ($\beta = 0.431$, $p < 0.001$, CR = 7.476), emphasizing the impact of environmental protection initiatives on investor choices. However, the interaction term of environmental CSR activities with mental accounting does not exhibit a significant influence on investment decisions, suggesting that Pakistani investors may not consider the environmental dimension when mentally accounting for their investment decisions. Overall, the study concludes that while social CSR activities significantly moderate the relationship between mental accounting and investment decision making, the environmental dimension does not play a similar moderating role in the Pakistani equity market.

5 | DISCUSSION

The subject of corporate social responsibility (CSR) has been a principal examined topic in management literature for some time. The study investigates investment decision-making based on mental accounting in socially responsible corporations, using corporate social responsibility (CSR) as a moderator between mental accounting and investment decisions. The results indicate that mental accounting significantly influences investment decisions, with an increase in mental accounting bias correlating with higher investment levels. While the overall CSR score does not show a significant relationship, the social and environmental dimensions positively impact investment decisions. Notably, social CSR significantly moderates mental accounting and investment decisions. Investors may lack awareness of CSR activities, focusing more on charitable contributions. The study suggests that investors in the stock market exhibit irrational decision-making, constrained by limited choices. Future research should evaluate the psychological aspects and biases influencing investors in socially responsible firms in Pakistan. The study's novelty lies in uncovering the moderating role of CSR between mental accounting and investment decisions.

5.1 | Recommendations for Future Research

There are a few recommendations suggested for future research which are based on the above-mentioned limitations. Other stocks of Pakistan like the Karachi stock exchange can also be considered for collecting the data and the data will also be increased in future research to remove the problem of generalization and then the quality of results will also improve. For future research, this study highlights many issues through analysis and discussion. Other behavioral biases can be added in future research with are not included in this research.

6 | CONCLUSION

The study investigates investment decision-making based on mental accounting in socially responsible corporations, using corporate social responsibility (CSR) as a moderator between mental accounting and investment decisions. The research, conducted with Pakistani equity market investors, collected primary data through questionnaires, distributed in Lahore and Islamabad stock exchanges. Out of 700 distributed questionnaires, 613 were completed and analyzed using AMOS. The results reveal that mental accounting significantly influences investment decisions, with an increase in mental accounting bias correlating with higher investment levels. Overall CSR does not show a significant relationship with investment decisions, indicating investors may not consider CSR activities. However, the social and environmental dimensions of CSR positively impact investment decisions, though they do not moderate mental accounting and investments overall. The gender-based analysis indicates that male investors are influenced by mental accounting and the social and environmental dimensions of CSR, while female investors are notably affected by mental accounting, but CSR does not play a significant role in their investment decisions. The study suggests that investors, particularly females, may lack awareness of CSR activities, emphasizing on role of irrationality and limited choices in stock market decisions.

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