

A Study on the Impact of Value Belief Norm Theory on Ethical Investment Behavior

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Abstract:

This research explores the elements that affect investors' attitudes towards ethical investments by utilizing the Value-Belief-Norm (VBN) theory. As the significance of socially responsible investing (SRI) and Environmental, Social, and Governance (ESG) factors rises, investors are more frequently synchronizing their financial choices with ethical principles. The study uses a structured survey to gather primary data from 100 investors in Bangalore, India, utilizing snowball sampling. Using multiple regression analysis, the research demonstrates that Values, Beliefs, and Norms notably influence ethical investment behaviour, with Beliefs identified as the most significant predictor. The findings suggest that although ethical factors influence investment decisions, other elements outside the VBN framework might also impact the investment behaviour.

Keywords: Ethical Investments, Investor Behaviour, Values, Beliefs, Norms.

1. Introduction

In today's integrated economy, there are numerous opportunities for investors, and it becomes difficult to ascertain profitable and risky investments. Traditional portfolio strategies have transformed to consider social, environmental, and governance (SEG) risks in light of investor concerns. Investment goals for profit maximization and economic development involve varying asset classes to adequately manage risks and returns.

Investing serves multiple purposes, including securing financial stability, building wealth, generating income, and reducing taxes. It plays a crucial role in retirement planning and achieving various financial goals. Traditional investments include ULIPs, savings plans, PPFs, fixed deposits, stocks, mutual funds, and real estate, each presenting different risks and returns. Alternatives like private equity, cryptocurrencies, and hedge funds are also emerging, usually involving higher risks. Investor behaviour, driven by psychological and social factors, greatly affects decisions, influencing product

development, policy creation, and individual financial literacy.

Investment patterns have significantly shifted from individual wealth maximization to socially responsible investment (SRI) integrating Environmental, Social, and Governance (ESG) considerations. The impetus behind this shift is heightened worldwide concern for social and environmental issues, the shifting regulation, and a new moral standard among financial institutions. SRI, impact investing, and ESG investing are some of the common ethical investment styles. Investors, particularly millennials and Generation Z, are increasingly looking to invest with their values and expect more transparency and accountability from firms regarding their ESG policies. The origins of ethical investment date back to religious movements and have been influenced by history from periods such as the anti-apartheid movement and the Vietnam War. Ethical investment today encompasses considering the ESG criteria in making an investment, an increased emphasis on sustainability, and a beneficial contribution to society. In India, government support, regulatory

changes, and increasing investor awareness are stimulating ethical investment growth, such as green bonds, SDG alignment, and ESG disclosures. Ethical investment has advantages such as greater personal satisfaction, investing in companies that foster good, and the potential to guide other firms towards implementing ethical practices.

Ethical theories provide foundational principles for decision-making, guiding individuals towards ethically sound choices. Utilitarianism, formulated by Bentham and Mill, promotes actions leading to the greatest overall happiness and utility, considering returns on investments for the masses. Deontology, formulated by Kant's theory, promotes fulfilment of duties and moral obligations, considering ethical behaviour irrespective of results. Rights-based ethics are concerned with the protection of public rights, whereas virtue ethics judge individuals based on their actions and character and support virtues such as compassion and integrity. Ethical investment, inspired by these theories, has transformed the financial landscape considerably by incorporating social responsibility alongside profits. However, the absence of standardization of reporting on ESG and differences in the level of public awareness persist. With all these problems, the development of ethical investments has a bright future with greater investor emphasis on ESG considerations. In India, government initiatives and growing investor interest create a favourable environment for ethical investing, contributing to sustainable economic growth. The Value-Belief-Norm (VBN) Theory provides a valuable framework for understanding the transition from ethical awareness to action, offering insights into the factors influencing ethical investment choices and supporting the development of sustainable financial markets

2. Literature review:

The literature on investment behaviour increasingly focuses on ethical and sustainable investing, with multiple studies investigating the factors influencing individuals' investment decisions. Casas, Ong et al. (2024) highlighted the significance of social norms and values in online investment platforms in the Philippines. Sharifah

NUR Wardina et al. (2024) offered guidelines for building ethical portfolios, emphasizing the interplay of values and screening processes. Echean (2024) discussed the psychological benefits of aligning values with investment returns. In Malaysia, Loo and Yeow (2023) explored responsible consumer behaviour, incorporating the Theory of Planned Behaviour and Value-Belief-Norm theory. Additionally, Kim & Rasiah (2023) assessed ethical investment behaviour among Malaysian insurance fund managers, identifying various modes of ethical behaviour. Hanifa & Atmini (2023) examined how social investing efficacy mediates the influence of individual values on ethical investments in Indonesia. Meanwhile, studies in the stock market by Sharma, Soni et al. (2023), Somathilake (2023), and others analysed factors like natural events, information accuracy, and behavioural finance, illuminating the complexity of investment decision-making across different contexts.

The Value-Belief-Norm (VBN) theory has been significantly utilized to analyse both environmental and investment behaviours. Research by Al Mamun et al. (2022) emphasized the role of biospheric values and social norms in workplace energy conservation through the VBN lens. Whitley et al. (2016) applied VBN to assess college students' sustainability behaviours, linking personal values to environmental choices. Additionally, Lind et al. (2015) focused on sustainable travel mode choices in urban areas, underscoring personal norms and situational elements. Steg et al. (2006) studied the acceptability of energy policies, confirming the causal relationships within VBN theory. In investment behaviour research, Vyas et al. (2020) explored socially responsible investing among Indian investors, finding a connection between individual traits and non-economic objectives. Perveen et al. (2020) examined how personality traits and risk tolerance impact investment experience, while Lin et al. (2018) looked at the correlation between perfectionism and ethical investment willingness. Nakai et al. (2018) identified psychological traits of potential socially responsible investors in Japan. Collectively, these

studies illustrate the influence of ethical considerations and psychological factors on investment choices.

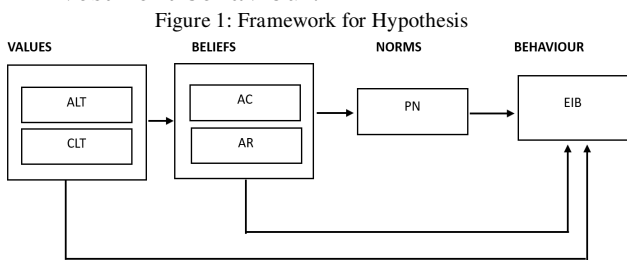
3. Objectives

1. To analyse the impact of VBN (Values, Beliefs & Norms) on ethical investment behaviour.

3.1 Framework for hypothesis

H₀: VBN has no significant impact on ethical investment behaviour.

H₁: VBN has a significant impact on ethical investment behaviour.



Note: ALT: Altruistic Values, CLT: Cultural Values, AC: Awareness of Consequence, AR: Ascription of Responsibility, PN: Personal Norms, EIB: Ethical Investment Behaviour

Figure 1 presents the theoretical model that forms the foundation of this study, based on Stern et al. (1999). This model is derived from the Value-Belief-Norm (VBN) theory, which explains the connection between personal values and pro-social behaviour (Schwartz, 1977; Stern, 2000). According to VBN theory, there is a causal sequence in which personal values shape specific beliefs about the consequences of actions and the responsibility for those consequences. These beliefs then give rise to the formation of personal norms, which are internalized moral guidelines for action. In this study, the VBN theory is translated into the field of ethical investment behaviour. In particular, we explore the effect of altruistic values (ALT, a concern with the welfare of others) and cultural values (CLT, beliefs and practices common in a particular group that prioritize tradition, community, and social order) on beliefs about the consequences of investment action (AC, Awareness of Consequences) and the ascription of responsibility (AR). These beliefs are theorized to have an effect on personal norms of ethical investment behaviour, defined as investment action which takes into consideration not only financial returns but also the societal &

environmental effects of the investment. The direction of influence implied by the arrows in Figure 1 is used to clarify the psychological process through which values, beliefs and norms determine ethical investment behaviour. The Value-Belief-Norm (VBN) theory offers a compelling explanation for why individuals engage in ethical investment behaviour. By understanding the interplay of values, beliefs, and norms, policymakers, organizations, and researchers can develop strategies to foster sustainable actions.

4. Research Design

Data Collection Methods

The primary data for this research was collected through a comprehensive questionnaire that investigated various aspects of investors' attitudes and behaviours towards ethical investments. The secondary data for this research was obtained through academic journal articles, books, reports, and credible online resources that discuss various aspects of ethical investment, investor behaviour, and the factors influencing ethical investment behaviour.

Sampling (Population, Sample Size)

The target population for this study is 100 respondents. The sample size was determined based on the research objectives and the availability of sample subjects.

Research Instrument (Questionnaire)

The study employed a structured questionnaire as its primary research tool to examine the factors influencing ethical investment behaviour. The questionnaire incorporated both closed-ended and open-ended questions, allowing for a mix of quantitative and qualitative insights. Additionally, the research utilized established scales to evaluate the Value-Belief-Norm (VBN) framework. Values were measured using Snelgar (2006), focusing on altruistic and cultural aspects relevant to ethical investing. Awareness of Consequences (AC) was assessed using items adapted from Wynveen et al. (2015), while Ascription of Responsibility (AR) was evaluated with questions from Zhang et al. (2013). Lastly, personal norms, reflecting a moral obligation to invest responsibly, were measured using Chou (2014).

Sampling Type

In this research, one of the non-probability sampling techniques known as snowball sampling was applied. In this regard, early participants suggested that more respondents be contacted to assist in the sample growing in a linked manner.

Scope Of Study

The scope of the study is to analyse the components of VBN theory affecting investors' choice on ethical investment in this urban region. The focus area of the study is Bangalore. The research findings will enable proper understanding of the reasons and issues facing investors in a region that is diversified with shifting social values.

5. Analysis and Interpretation

Objective : To analyse the impact of VBN (Values, Beliefs & Norms) on ethical investment behaviour.

H₀: VBN has no significant impact on ethical investment behaviour.

H₁: VBN has a significant impact on ethical investment behaviour.

Table 1: Regression Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error Of The Estimate
1	.730 ^a	.533	.518	.396

a. Predictors: (constant), Norms, Beliefs, Values
 b. Dependent Variable: Behaviour

Table 1 presents a Model Summary from a multiple regression analysis examining ethical investment behaviour (dependent variable) against to three predictors: Values, Beliefs, and Norms. With an R value of .730, there is a significant positive correlation, indicating that these predictors explain approximately 53.3% of the variation in behaviour (R Square). However, 46.7% remains unexplained, suggesting other influencing factors exist. The Adjusted R Square of .518 suggests robustness, while a Standard Error of .396 indicates the average deviation from predictions. Therefore, while the model identifies key markers of behaviour, further research is needed to explore additional factors.

Table 1.1: Regression Analysis

ANOVA ^a						
Model		Sum Of Squares	Df	Mean Square	F	Sig.
1	Regression	17.134	3	5.711	36.463	.000 ^b
	Residual	15.037	96	.157		
	Total	32.172	99			

a. Predictors: (constant), Norms, Beliefs, Values
 b. Dependent Variable: Behaviour

Table 1.1 presents ANOVA results from a multiple regression model examining the connection between behaviour and three predictors: Values, Beliefs, and Norms. The total sum of squares is 32.172, divided into explained (Regression Sum of Squares of 17.134) and unexplained variability (Residual Sum of Squares of 15.037). The degrees of freedom for Regression are 3, while Residual is 96. The Mean Square for Regression is 5.711, and for Residual it's .157. The F-statistic is 36.463, indicating the model's significance, with a Sig. value of .000 (p < .001). Thus, Values, Beliefs, and Norms significantly predict ethical investment behaviour. In conclusion, the null hypothesis is rejected, and the alternative hypothesis is accepted, confirming that Values, Beliefs, and Norms significantly predict ethical investment behaviour.

Table 1.2: Coefficients of Regression Analysis

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.406	.335		1.212	.228
	Values	.167	.105	.155	1.598	.113
	Beliefs	.456	.098	.413	4.666	.000
	Norms	.254	.089	.280	2.860	.005

a. Dependent Variable: Behaviour

Table 1.2 displays coefficients from a multiple linear regression analysis examining the impact of Values, Beliefs, and Norms on Behaviour, likely related to ethical investment choices. The constant (.406) indicates the predicted behaviour value when predictors are zero. Each one-unit increase in Values results in a .167 increase in behaviour, Beliefs a .456 increase, and Norms a .254 increase. Standardized coefficients reveal Beliefs (.413) as the strongest predictor, followed by Norms (.280) and Values (.155). Statistical significance shows Beliefs (.000), and Norms (.005) are significant, while Values (.113) is not. This suggests Beliefs and Norms largely shape ethical behaviour.

Figure 2: Histogram of Regression Analysis

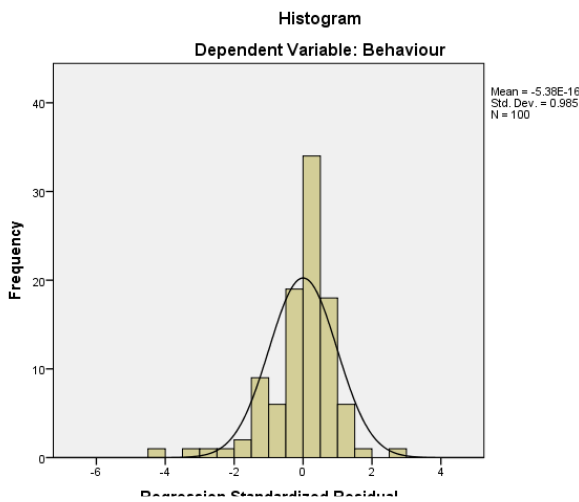


Figure 2 is a histogram of the standardized residuals from regression analysis, demonstrating the distribution of observed minus predicted behaviour values. The bell-like shape of the histogram at zero suggests near aboutness of the residuals, important for regression's statistical assumptions. The mean of $-5.38E-16$ is nearly zero, suggesting there is negligible deviation from perfect distribution. The standard deviation of 0.985 is very close to 1, which is expected in the case of standardized residuals. Both visual and statistical evidence based on 100 observations support the claim that the assumption of normality would be met, making the regression model much more reliable.

Regression analysis validated the impact of the VBN elements towards ethical investment actions. The total effect of Values, Beliefs, and Norms explained 53.3% of differences in ethical investment action, validating that the three elements play a critical role in determining whether an individual can make an ethical investment choice. The factors which are considered important predictors include Beliefs ($\beta = .413$), followed by Norms ($\beta = .280$), and those who received the least impact are Values ($\beta = .155$). It was found that the extended model is statistically significant at $p < 0.001$; hence, individuals' ethical investment decisions are significantly influenced by their personal beliefs, perceived standards, and core values. However, given that 46.7% of the variation remains unexplained, it suggests that additional factors

beyond the VBN framework may also affect ethical investment behaviour.

5. Conclusion

This research highlights the importance of the Value-Belief-Norm (VBN) theory in comprehending ethical investment behaviour. The empirical evidence indicates that the beliefs and personal norms of investors are the primary factors influencing ethical investment choices, while values, though pertinent, exert a relatively lesser influence. This suggests that investors who view ethical investing as a moral obligation or societal responsibility are more inclined to integrate ESG (Environmental, Social, and Governance) factors into their investment behaviour.

Additionally, the regression analysis of the study demonstrates that values, beliefs, and norms together account for 53.3% of the differences in ethical investment behaviour. Nevertheless, the remaining 46.7% indicates that additional factors, including financial literacy, risk perception, previous investment experiences, regulatory frameworks, and cultural influences, could significantly influence investment decisions. With the growing international focus on sustainable finance, it is crucial for policymakers, investment advisors, and financial institutions to boost awareness initiatives, ensure clearer ESG disclosures, and implement supportive regulations to encourage ethical investing.

Although the study offers valuable insights, it has specific limitations, including a sample size limited to Bangalore, India, and dependence on self-reported data, which might be prone to biases. Future studies should broaden their focus by involving a larger and more varied sample while also integrating more psychological and economic elements to offer a comprehensive perspective on ethical investment behaviour. Examining cross-cultural variations and performing longitudinal research may deepen our insight into the evolution of ethical investment preferences over time.

Ultimately, the increasing enthusiasm for ethical investing indicates a favourable transition towards a more sustainable and accountable financial

environment. By tackling the current gaps and promoting ethical investment behaviours, stakeholders can collaborate to develop a more socially and environmentally accountable investment environment.

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