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(RESEARCH ARTICLE)

The influence of behavioral finance on accounting decision-making

Ogujiofor Magnus Nkemjika [1, *], Ozuomba Chidinma Nwamaka [2], Okonye Onyemazuwa [3] and Ilogho John Onowho [3]

[1] *Department of Accounting Novena university Ogume Delta State Nigeria.*
[2] *Department of Accounting University of Agriculture and Environmental sciences Umuagwo Imo State Nigeria.*
[3] *Novena University Ogume, Delta State Nigeria.*

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Abstract

The study investigates the influence of behavioural finance on accounting decision-making. A survey research design was adopted and used in the study. the study also used questionnaire to gather responses from respondent. The data collected were analysed using 4point Likert and from the analysis of data collected, the result showed that behavioural biases have a significant negative effect on risk assessment and financial forecasting. Result also showed that biases such as anchoring, recency bias, short-termism, and emotional influences significantly distort financial decision-making. Evident too in the result is the fact that emotional biases, such as fear or optimism, further reduce objectivity, leading to inconsistent and potentially flawed financial strategies. It was based on these findings that this study therefore, recommended that to mitigate the adverse effects of behavioural biases in financial decision-making, organizations should adopt structured risk assessment models that integrate historical trends and objective financial indicators and training programs in behavioural finance should be implemented to increase awareness among financial professionals regarding the influence of cognitive distortions.

Keywords: Influence Of Behavioural Finance; Accounting Decision-Making; Accounting Decision-Making Bias; Impact of Behavioral Finance on Accounting

1. Introduction

In the realm of financial decision-making, traditional theories have long posited that individuals act rationally, systematically analysing information to maximize utility. However, emerging research in behavioural finance challenges this notion, suggesting that cognitive biases and psychological factors significantly influence decisions, often leading to suboptimal outcomes (Mittal, 2022). This paradigm shift has profound implications for accounting, where decision-making processes are critical. Behavioural finance examines how psychological influences and cognitive biases affect the financial behaviours of investors and financial practitioners. Key biases such as overconfidence, loss aversion, and herd behaviour have been identified as pivotal in shaping investment decisions (Sattar *et al*., 2020). These biases can lead to anomalies in financial markets, challenging the assumptions of traditional financial theories.

In accounting, decision-making is traditionally viewed through the lens of rational analysis and adherence to established principles. However, recent studies indicate that accountants and financial managers are not immune to behavioural biases. For instance, overconfidence can result in overly optimistic financial forecasts, while loss aversion may lead to conservative accounting choices that avoid recognizing potential losses (Hanlon *et al*., 2022). These biases can compromise the integrity of financial reporting and decision-making processes. Despite the recognition of these biases, there remains a gap in understanding the extent to which behavioural finance influences accounting decision-making. While substantial research has focused on the impact of cognitive biases on investment decisions, less attention has

* Corresponding author: Ogujiofor Magnus Nkemjika

been given to their effect within the accounting profession. This gap is particularly significant given that accounting decisions directly affect financial reporting, organizational strategy, and stakeholder trust. Therefore, Investigating the influence of behavioural finance on accounting decision-making is essential for several reasons. Firstly, it can enhance the accuracy and reliability of financial reporting by identifying and mitigating biases that may distort information. Secondly, understanding these influences can improve the effectiveness of accounting practices, leading to better resource allocation and strategic planning. Lastly, it can inform the development of training programs aimed at increasing awareness of cognitive biases among accounting professionals, thereby promoting more objective decision-making processes. It as result of this that this study aims to bridge the existing knowledge gap by exploring how behavioural finance principles affect accounting decision-making.

1.1. Statement of the problem

Traditional accounting decision-making assumes rational analysis, but behavioural finance suggests that cognitive biases such as overconfidence, loss aversion, and herd behaviour significantly impact financial decisions (Mittal, 2022). While these biases are well-documented in investment decision-making, their influence on accounting remains underexplored. However, accountants play a crucial role in financial reporting and risk assessment, yet behavioural biases can lead to misjudgements, distorted financial statements, and regulatory risks (Hanlon et al., 2022). Despite growing interest in behavioural finance, limited research exists on how these biases affect accounting professionals' decisions. Addressing this gap is essential to improving financial transparency, corporate governance, and overall market integrity. Therefore, in order to address such problem, this study seeks to investigate the role of behavioural finance in accounting decision-making, identify key biases, and propose strategies to mitigate their adverse effects.

Aim/ Objective of the study

The major aim of the study is the influence of behavioural finance on accounting decision-making. Specifically, the objective of the study will be to;

- Examine the influence of behavioural finance principles on accounting decision-making.
- Analyze the impact of behavioural biases on financial reporting accuracy and strategic decision-making.
- Investigate the extent to which behavioural biases affect risk assessment and financial forecasting in accounting.

2. Literature Review

2.1. Conceptual framework

Baker & Ricciardi, (2014) defined behavioural finance studies as the influence of psychology on the behaviour of financial practitioners and the subsequent effect on markets. While Van Loo, (2015) defined it as a finance attempt to explain the reasoning patterns of investors and the measures of the influential power of these patterns on the investor's decision making.

2.2. Theoretical studies

2.2.1. influence of behavioural finance principles on accounting decision-making.

Behavioural finance has emerged as a critical field of study, challenging traditional assumptions of rationality in financial decision-making.Traditional finance theories, such as the Efficient Market Hypothesis, posit that individuals act rationally, making decisions based on all available information. However, behavioural finance introduces the concept that psychological factors and cognitive biases significantly influence financial behaviours. Kanapickienė *et al.* (2024) provide a detailed analysis of this evolution, highlighting the shift from classical finance to behavioural perspectives. They identify fundamental biases, including overconfidence, loss aversion, and herd behaviour, and discuss their impact on investment decisions. While their study focuses on investment behaviours, the principles are applicable to accounting, where decision-makers may also be influenced by similar biases. However, Jia (2023) examines anomalies in the stock market to introduce prominent cognitive biases influencing investment decisions. The study explores emotions behind these biases and suggests ways to mitigate errors in financial markets. Although centered on investment, the insights into cognitive biases are pertinent to accounting decision-making, as accountants may exhibit similar psychological tendencies.

In the study of Ferdian (2024) there is cognitive biases, such as overconfidence, herding, and loss aversion, in investment decision-making. His research highlights significant differences between long-term and short-term

investments and between retail and institutional investors. These findings underscore the pervasive nature of cognitive biases across various financial contexts, suggesting potential implications for accounting professionals who engage in both strategic and operational decision-making. Despite these insights, there is a notable gap in literature specifically addressing the impact of behavioral finance principles on accounting decision-making. Most existing studies concentrate on investment behaviors, leaving the influence of cognitive biases on accounting practices underexplored.

2.2.2. Impact of behavioural biases on financial reporting accuracy and strategic decision-making.

Behavioural biases significantly influence financial reporting accuracy and strategic decision-making, challenging the traditional assumption of rationality in economic behaviour. Kanapickienė *et al*. (2024) traces the evolution from classical finance theories, which assume investor rationality, to behavioural finance perspectives that account for psychological influences. The study identified fundamental biases such as overconfidence, loss aversion, and herd behaviour, discussing their impact on investment decisions. While the focus is primarily on investment behaviour, the insights are pertinent to financial reporting and strategic decision-making, as similar biases can affect managerial judgments. On the other hand, Nobre *et al.* (2022) explore the role of behavioural biases in investment decisions among entrepreneurs and managers. Through qualitative interviews, the study finds prevalent biases including optimism, overconfidence, and loss aversion, which influence decision-making processes. Their findings suggest that such biases could compromise the objectivity and accuracy of financial reporting, as managerial decisions are integral to these processes.

Providing an extensive review of theoretical and empirical studies on the impact of behavioural biases on financial decisions. Peón and Antelo (2021) highlight those biases like anchoring, framing, and herd behaviour lead to systematic deviations from rationality, affecting both individual and corporate financial decisions. The study emphasizes the need for mechanisms to mitigate these biases to enhance decision-making quality. Despite these insights, there is a notable gap in literature specifically addressing the direct impact of behavioural biases on financial reporting accuracy. Most studies focus on investment decisions or general financial behaviours, leaving the effects on accounting practices underexplored. Additionally, while the identification of biases is well-documented, effective strategies for mitigating their impact in organizational contexts remain insufficiently researched.

2.2.3. Extent to which behavioural biases affect risk assessment and financial forecasting in accounting

Behavioural biases significantly influence risk assessment and financial forecasting in accounting, challenging the traditional assumption of rational decision-making in financial practices. Peón and Antelo (2021) providing an extensive review of theoretical and empirical studies on the impact of behavioural biases on financial decisions; highlight those biases like anchoring, framing, and herd behaviour lead to systematic deviations from rationality, affecting both individual and corporate financial decisions. The study emphasizes the need for mechanisms to mitigate these biases to enhance decision-making quality in accounting contexts.

Chukwuani (2023) investigates the psychological factors influencing accountants' risk perception and risk-taking behaviour. Through a combination of case studies and empirical evidence, the study identifies prevalent biases such as overconfidence, confirmation bias, and groupthink. These biases can lead to misinterpretations of financial data and suboptimal decision-making in risk assessment and forecasting. The research underscores the need for integrating behavioural finance principles into accounting education to mitigate these biases.

Gyimah (2020) in his study, examined the nexus between behavioural biases and investment decisions in a developing country context. Utilizing multiple regression analysis, the study reveals that biases such as overconfidence, regret, and belief significantly influence investment decision-making. Although focused on investment, the findings suggest that similar biases could impact financial forecasting in accounting, particularly in environments characterized by uncertainty. Baker and Ricciardi (2020) also explored how behavioural biases affect finance professionals, including financial planners and advisors. The study discusses heuristics, anchoring, and framing effects, noting that these biases can lead to flawed judgments and decisions. The authors therefore, emphasize the importance of awareness and training to mitigate the adverse effects of these biases on financial decision-making. While the focus is on finance professionals, the insights are applicable to accounting practitioners involved in risk assessment and forecasting.

2.3. Theoretical Framework

The theory is anchored on Prospect Theory, proposed by Daniel Kahneman and Amos Tversky in 1979. Thee theory states that individuals do not make decisions based on absolute outcomes but rather on perceived gains and losses relative to a reference point. Prospect Theory also suggests that people exhibit systematic biases and cognitive distortions when evaluating risk and uncertainty. A key principle of the theory is loss aversion, which states that losses

have a greater psychological impact than equivalent gains. This means individuals tend to prefer avoiding losses over acquiring gains of the same magnitude. This theory provides a psychological explanation for why individuals make inconsistent and sometimes irrational financial decisions, particularly in the context of risk and uncertainty. This gives credence to the use of this theory in anchoring the study.

3. Methodology

3.1. Research Design

This study employs a survey research design to investigate the influence of behavioural finance on accounting decision-making. A survey design is appropriate as it allows for the collection of primary data directly from respondents, ensuring a broad representation of perspectives on behavioural finance principles and their impact on accounting choices (Creswell & Creswell, 2023). A cross-sectional approach is utilized, as data is collected at a single point in time to capture behavioural biases and financial decision-making trends without requiring a longitudinal perspective (Saunders *et al.,* 2022). This design is advantageous due to its efficiency in data collection, cost-effectiveness, and ability to generalize findings within the study's population (Bryman, 2021). However, it is subject to limitations such as response bias and the inability to establish causality, which will be mitigated through robust statistical analyses and validation techniques.

3.2. Population of the study

The target population for this study comprises accounting professionals, financial analysts, and corporate decision-makers within the financial sector. These individuals are selected due to their direct engagement with accounting decision-making processes influenced by behavioral finance principles.

3.3. Sampling technique

The study adopts a probability sampling method, specifically stratified random sampling, to ensure representation across different professional backgrounds and organizational sizes (Taherdoost, 2021). This approach enhances the generalizability of findings while reducing selection bias.

3.4. Sample size

To determine the appropriate sample size, a power analysis is conducted to ensure statistical significance, with an estimated minimum of 300 respondents to enhance reliability (Cohen, 2020). This estimation aligns with previous studies in behavioural finance and accounting research, ensuring adequate statistical power for inferential analysis.

3.5. Data Collection Method

The study utilizes a self-administered online survey as the primary data collection instrument. The survey consists of structured questionnaires designed to measure behavioural finance principles such as overconfidence, loss aversion, and anchoring in relation to accounting decision-making. Questions are formulated using 4point Likert scale to capture the degree of agreement or disagreement with behavioural finance constructs (Fisher *et al.,* 2022).

3.6. Reliability and Validity

To ensure reliability, internal consistency is tested using Cronbach's alpha, with a threshold of 0.7 and above considered acceptable (Nunnally & Bernstein, 2021). Construct validity is verified through exploratory and confirmatory factor analysis. Content validity is established through expert reviews and pre-testing of the survey instrument (Kline, 2020).

3.7. Data Analysis Techniques

Data collected were analysed using 4point Likert and mean was used to address the objective of he studies.

4. Result

Table 1 Examine the influence of behavioural finance principles on accounting decision-making

s/n	Item on the influence of behavioural finance principles on accounting decision-making	Mean ($\bar{x}$)	Remark
1	Lead to Heuristics and Biases in decision making	4.0	Strongly Agree
2	Causes of Loss Aversion	3.9	Strongly Agree
3	Causes Overconfidence Bias	3.8	Strongly Agree
4	Cause Herding Behaviour	3.7	Strongly Agree
	Mean of mean	3.9	Strongly Agree

The findings in the table 1 highlight the significant influence of behavioural finance principles on accounting decision-making, with a strong agreement among respondents on the impact of various biases and heuristics. The mean value of 4.0 for the statement that behavioural finance principles lead to heuristics and biases in decision-making underscores the extent to which accountants rely on mental shortcuts when making financial judgments. This reliance can introduce systematic errors, affecting the accuracy of financial assessments and strategic decisions. The presence of heuristics in accounting decision-making may lead to inconsistent evaluations, particularly when processing complex financial data under uncertainty. The role of behavioural finance in loss aversion is evident with a mean score of 3.9, signifying strong agreement that accountants tend to place greater emphasis on avoiding losses rather than maximizing gains. This cognitive bias may lead to overly conservative financial decisions, reluctance to take necessary risks, or even earnings management practices aimed at smoothing financial results to minimize perceived volatility. The aversion to losses can also influence investment decisions and financial reporting practices, potentially resulting in distortions in the representation of a firm's financial health.

The perception that behavioural finance causes overconfidence bias is reinforced by a mean score of 3.8, indicating that accountants and financial professionals often exhibit excessive confidence in their judgments and forecasting abilities. This bias can lead to underestimation of risks, overvaluation of assets, and an inflated sense of accuracy in financial predictions..

The table further illustrates that behavioural finance principles contribute to herding behaviour, with a mean value of 3.7, showing strong agreement on the tendency of financial professionals to follow industry trends or peer decisions rather than making independent assessments. The overall mean of mean value of 3.9 finally, confirms the strong consensus that behavioural finance principles significantly shape accounting decision-making. These biases influence risk perception, judgment accuracy, and financial strategy formulation, underscoring the necessity for regulatory frameworks, ethical guidelines, and enhanced professional training to mitigate the effects of cognitive distortions in financial reporting.

Tale 2 Analyse the impact of behavioural biases on financial reporting accuracy and strategic decision-making

s/n	Item on impact of behavioural biases on financial reporting accuracy and strategic decision-making	Mean ($\bar{x}$)	Remark
1	Behavioural bias leads to unrealistic financial projections and misstatements.	3.9	Strongly Agree
2	Behavioural bias leads to reliance on initial financial estimates, even when new data suggests necessary adjustments	4.0	Strongly Agree
3	Behavioural bias leads to the justification of aggressive accounting practices despite ethical concerns.	3.5	Strongly Agree
4	Emotional biases such as fear or optimism distort strategic financial decisions, impacting investment and budgeting choices.	3.7	Strongly Agree
5	It reduces transparency in financial reporting, leading to a decline in investor confidence	3.8	Strongly Agree

	Mean of Mean	3.8	Strongly Agree

Table 2, emphasize the profound impact of behavioural biases on financial reporting accuracy and strategic decision-making, with all measured aspects receiving strong agreement from respondents. The mean score of 3.9 for the assertion that behavioural bias leads to unrealistic financial projections and misstatements underscores the extent to which cognitive distortions influence financial reporting. This suggests that decision-makers often overestimate financial performance, which can result in misleading financial statements. The tendency of financial professionals to rely on initial financial estimates, even when new data suggests necessary adjustments, is strongly agreed upon, with a mean score of 4.0. This indicates a significant anchoring bias, where initial figures disproportionately shape subsequent financial judgments. Such bias can lead to rigidity in financial reporting, causing inaccuracies in budget planning, forecasting, and financial disclosures.

The justification of aggressive accounting practices despite ethical concerns also receives a mean score of 3.5, highlighting strong agreement on the influence of behavioural biases in rationalizing questionable financial practices. This suggests that cognitive dissonance allows decision-makers to engage in aggressive earnings management, overstating revenues or understating liabilities to present a more favourable financial position.The role of emotional biases such as fear or optimism in distorting strategic financial decisions is also acknowledged with a mean score of 3.7. This demonstrates that financial leaders' emotional states significantly influence investment and budgeting choices. The reduction in transparency in financial reporting, leading to a decline in investor confidence, has a mean score of 3.8, reinforcing the critical role of unbiased financial reporting in maintaining market credibility.

The overall mean of 3.8 confirms a strong consensus on the significant influence of behavioural biases on financial reporting accuracy and strategic decision-making. These biases contribute to financial misstatements, flawed strategic decisions, and diminished transparency, emphasizing the necessity for robust governance mechanisms, ethical financial training, and structured decision-making models.

Table 3 Extent to which behavioural biases affect risk assessment and financial forecasting in accounting

s/n	Item on Extent to which behavioural biases affect risk assessment and financial forecasting in accounting	Mean ($\bar{x}$)	Remark
1	It leads to underestimation of financial risks in forecasting	3.6	Strongly Agree
2	behavioural biases influence financial forecasts by making accountants overly reliant on initial assumptions	3.8	Strongly Agree
3	It leads to excessive focus on recent financial events, overlooking historical risk trends	3.6	Strongly Agree
4	Behavioural biases encourage risk assessments that favour short-term profitability over long-term financial stability	3.8	Strongly Agree
5	Emotional biases, such as fear or optimism, distort objective evaluation of financial risks	3.5	Strongly Agree
	Mean of Mean	4.0	Strongly Agree

Table 3 shows the significant extent to which behavioural biases influence risk assessment and financial forecasting in accounting. The strong agreement with the statement that behavioural biases lead to the underestimation of financial risks in forecasting, has a mean score of 3.6, underscores a critical concern in financial decision-making. This suggests that cognitive distortions contribute to risk misjudgement, causing accountants and financial analysts to downplay potential uncertainties and vulnerabilities. Such underestimations can result in insufficient risk mitigation strategies, ultimately exposing firms to financial instability and unforeseen market shocks. The mean score of 3.8 for the assertion that behavioural biases influence financial forecasts by making accountants overly reliant on initial assumptions indicates a strong presence of anchoring bias in financial projections. The implications of such reliance include inflexible forecasting models that fail to adapt to market changes, increasing the likelihood of misallocating resources and making erroneous strategic decisions.

The tendency of financial professionals to focus excessively on recent financial events while overlooking historical risk trends, which also received a mean score of 3.6, reinforces the presence of recency bias in risk assessment. This means that decision-makers prioritize short-term financial patterns over long-term trends, potentially misinterpreting risk factors. This overemphasis on immediate financial data can result in an inaccurate assessment of volatility, leading to either excessive conservatism or unwarranted risk-taking in financial forecasting. The influence of behavioural biases in encouraging risk assessments that favour short-term profitability over long-term financial stability, also has a mean score of 3.8, highlighting a fundamental issue in financial decision-making. This suggests that firms, driven by biases, prioritize immediate financial gains while neglecting sustainability and long-term financial health.

The mean score of 3.5 for the impact of emotional biases such as fear or optimism in distorting objective evaluation of financial risks highlights the role of psychological factors in financial decision-making. The presence of optimism bias may cause financial analysts to downplay risks, leading to overly ambitious financial strategies, whereas fear-based biases may encourage excessive risk aversion, limiting growth opportunities. Therefore, with an overall mean of 4.0, the table indicates a strong consensus that behavioural biases significantly impact risk assessment and financial forecasting in accounting. The findings suggest that biases such as anchoring, recency bias, short-termism, and emotional influences compromise the accuracy and reliability of financial predictions.

5. Conclusion and Recommendation

The findings clearly showed profound impact of behavioural biases on risk assessment and financial forecasting in accounting. The strong agreement across all variables suggests that biases such as anchoring, recency bias, short-termism, and emotional influences significantly distort financial decision-making. It was also noted from the study, that the tendency to underestimate financial risks, rely excessively on initial assumptions, focus on recent events while neglecting historical trends, and prioritizing short-term profitability over long-term stability creates vulnerabilities in financial forecasting. Additionally, emotional biases, such as fear or optimism, further reduce objectivity, leading to inconsistent and potentially flawed financial strategies. This findings agree with the finding of Baker and Ricciardi (2020) who in his study said that behavioural biases affect finance professionals, including financial planners and advisors.

Therefore, it is recommended that to mitigate the adverse effects of behavioural biases in financial decision-making, organizations should adopt structured risk assessment models that integrate historical trends and objective financial indicators and training programs in behavioural finance should be implemented to increase awareness among financial professionals regarding the influence of cognitive distortions.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

Statement of informed consent

Informed consent was obtained from all individual participants included in the study

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