

## Chapter 2

# Linking Personal Values to Investment Decisions Among Individual Shareholders in a Developing Economy

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### **ABSTRACT**

*This chapter examines the link between personal values and investment decisions among individual shareholders in a developing economy. It contributes to the knowledge on behavioral finance and decision sciences that individual shareholders' personal values have influence on their investment decisions and the choice of companies they invest in. It employs a grounded theory approach. The chapter highlights that individual shareholders hold value priorities and that honesty, a comfortable life and family security play a significant role in their lives and their investment decisions and the kind of companies they make investment in. In addition, to the individual shareholders, there is a clear distinction between a comfortable life and a prosperous life in the sense that they are not incentivized more by the latter but the former in their investment decisions.*

### **INTRODUCTION**

In this chapter, we respond to recent calls and discussions within broader social and economic perspectives to make a new contribution to the extant literature on behavioural finance and decisions sciences by examining how investment decisions of individual shareholders are influenced by their personal values. There is a clear distinction between ordinary shareholders and socially or ethically responsible shareholders in the sense that ordinary shareholders are always considered to be essentially interested in the financial gains of companies (Carroll & Buchholtz, 2003) or with the sole purpose of maximizing wealth or income (Lewis, 2002). Wärneryd (2001) professes that marketing financial services situates on the belief that all capital providers are keen and always ready to maximise their wealth or income.

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### ***Linking Personal Values to Investment Decisions Among Individual Shareholders***

The rationale for such notions of ordinary shareholders is that based on the neoclassical hypothesis of *Homo Economicus*, investors are self-centered human beings whose ultimate goal is to maximise wealth, which demands the maximisation of share price (Rivoli, 1995). However, this shallow hypothesis that investors are primarily self-interested and do not care about the well-being of other stakeholders (or non-shareholders) is flawed by the findings of Nair and Ladha (2014), Pasewark and Riley (2010), Chiu (2009), Hanson and Tranter (2006), Muller (2001) and Epstein (1992).

As contended by neoclassical economists, *Homo Economicus* is a rational man and yet perceived by others (for instance, Tomer, 2001; Kuran, 1995; Elster, 1985) as manipulative, self-centred, pitiless and making the very effort to gain personal pleasure or satisfaction. However, the belief that shareholders are shortsighted and are not supportive of their firms' socially responsible dealings appears to be in contradiction with the actual demeanor of ordinary individual shareholders. Studies reveal that small shareholders always take into consideration long-term view in periods of investments (Lease *et al.*, 1974; Muller, 2001; Ryan & Gist, 1995; Wärneryd, 2001) and their mind-sets are not entirely self-centered- that is increasing firm performance or profit to the detriment of other stakeholders (Muller, 2001; Epstein, 1992). In other words, individual shareholders seek both 'Utilitarian' (maximizing wealth) and 'expressive' gains (investment as a means of expressing their personal values) from their investment decisions (Nair & Ladha, 2014). Therefore, the traditional wealth maximization hypothesis that does not take into account personal values overlook a relevant factor that influences investment decisions (Pasewark and Riley, 2010).

Though shareholders may not agree on what the topmost Corporate Social Responsibility (CSR) is, they are becoming more conscious of the relevance of CSR. A study in Australia in 2007 divulges that seven out of ten investors in Australia point out that when investing in shares; they prefer firms that are both socially and environmentally responsible (Australian Securities Exchange, 2007). In addition, a survey conducted by Capgemini and RBC on wealth management<sup>1</sup> in 2014, divulged that more than half of the high net worth people surveyed expressed 'driving social influence' as extremely relevant and almost nine out of ten expressed it as relevant. This explicitly illuminates an aspect of investment preference behaviour that place emphasis on the neoclassical hypothesis that they are purely self-interested wealth maximisers. In fact, the Economic Man idea conspicuously lacks in providing an explanation and predicting human demeanor in that both the non-economic incentives and social facets of human life have been shunned from the concept (Tomer, 2001). A good example is cited by Frankfurt (1998) that, certain non-economic elements are included in the decision-making processes of individuals. The author proposes the view of caring- concerning our own principles, and in regards to those we love. The author postulates '[a] person who cares about something is, as it were, invested in it ... Thus he concerns himself with what concerns it, giving particular attention to such things and directing his behavior accordingly'.

As we are inescapably, a constituent of society, our decisions and demeanor cannot thus entirely leave out societal norms. From infancy, each person has a gamut of needs or goals created by socialization processes in a way and manner that comply or go hand in hand with societal needs (Rokeach & Regan, 1980). As argued by Etzioni (1991: 4) '[i]ndividuals do render the final decision, but usually within the context of values, beliefs, ideas and guidelines instilled in them by others, and reinforced by their social circles'. The interaction between social behaviour and economic behaviour helps people to make choices and preferences founded on their values and sentiments. Empirically, researchers on human values (Feather, 1995; Rokeach, 1973; Schwartz, 1992, 1994) contend persuasively for the sentimental and guiding roles of values in all facets of people's lives. Rokeach (1973) adds to his structure of universal human values, terminal values (end-states existence) that will probably be self-oriented or community-

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