How does impression management influence investors' decisions?

- Investors often lean on each other for investment advice, but information shared via 'word of mouth' can be inaccurate.
- Professor Byoung-Hyoun Hwang (Nanyang Technological University, Singapore) and Professor Hailiang Chen (University of Hong Kong) believe investors' conversations are strongly influenced by 'impression management considerations'.
- Investors' desire to manage how others perceive them can influence the information they choose to share with others and even take priority over the usefulness and accuracy of the information.
- 'Blindly' following peer advice can thus lead to poor investment decisions.

Could impression management be a factor in what information investors choose to share with others?

People often turn to others for advice. While information gathered through social interactions can result in informed decisions, oftentimes, it can also mislead. Like 'Chinese whispers', people can distort information or only share part of it. Academics, together with financial regulators and practitioners, increasingly recognise that investors draw from each other for investment advice. But what are the consequences of information shared via 'word of mouth' for the quality of investors' decisions and the overall stock market efficiency?

Professor Byoung-Hyoun Hwang from Nanyang Technological University, Singapore, and Professor Hailiang Chen from the University of Hong Kong believe investors' conversations are strongly influenced by 'impression management considerations'. They propose that when investors decide what information to share, value relevance (ie how well the content captures a company's state and predicts future returns) is not always their top priority. Instead, they subconsciously care more about the impressions their sharing creates and whether such impressions match the self-image they want to project.

Does impression management matter to investors?

The social psychology literature shows that humans are conditioned to be careful about how others perceive them, and they regularly use their conversations to create impressions of likeability and competence. Could impression management also be a factor in what information investors choose to share with others? In a recent study, Hwang and Chen explored this possibility.

There are many impressions investors may want to project and many content types suited to create those impressions. To test whether impression management also enters investors' conversations, Hwang and Chen honed in on one content characteristic: how quantitative a piece of information is. According to the social psychology literature, quantitative content is particularly well suited for creating impressions of intelligence and competence. The researchers emphasise that they focused on quantitativeness not because they believe it is the most important dimension but for the simple reason that it is comparatively easy to measure a content's quantitativeness, which allows for cleaner, less ambiguous inferences.

The researchers hypothesise that if investors care about their public image and consider intelligence and thoughtfulness to be desirable attributes, they will choose to share more quantitative content rather than more qualitative content. In fact, if impression management considerations weigh heavily on investors' minds, they may prioritise the quantitative content even when the qualitative content is more informative. Impression management can therefore bring about the propagation of less helpful advice.

Hwang and Cheng tested their hypothesis in two ways. First, they analysed the

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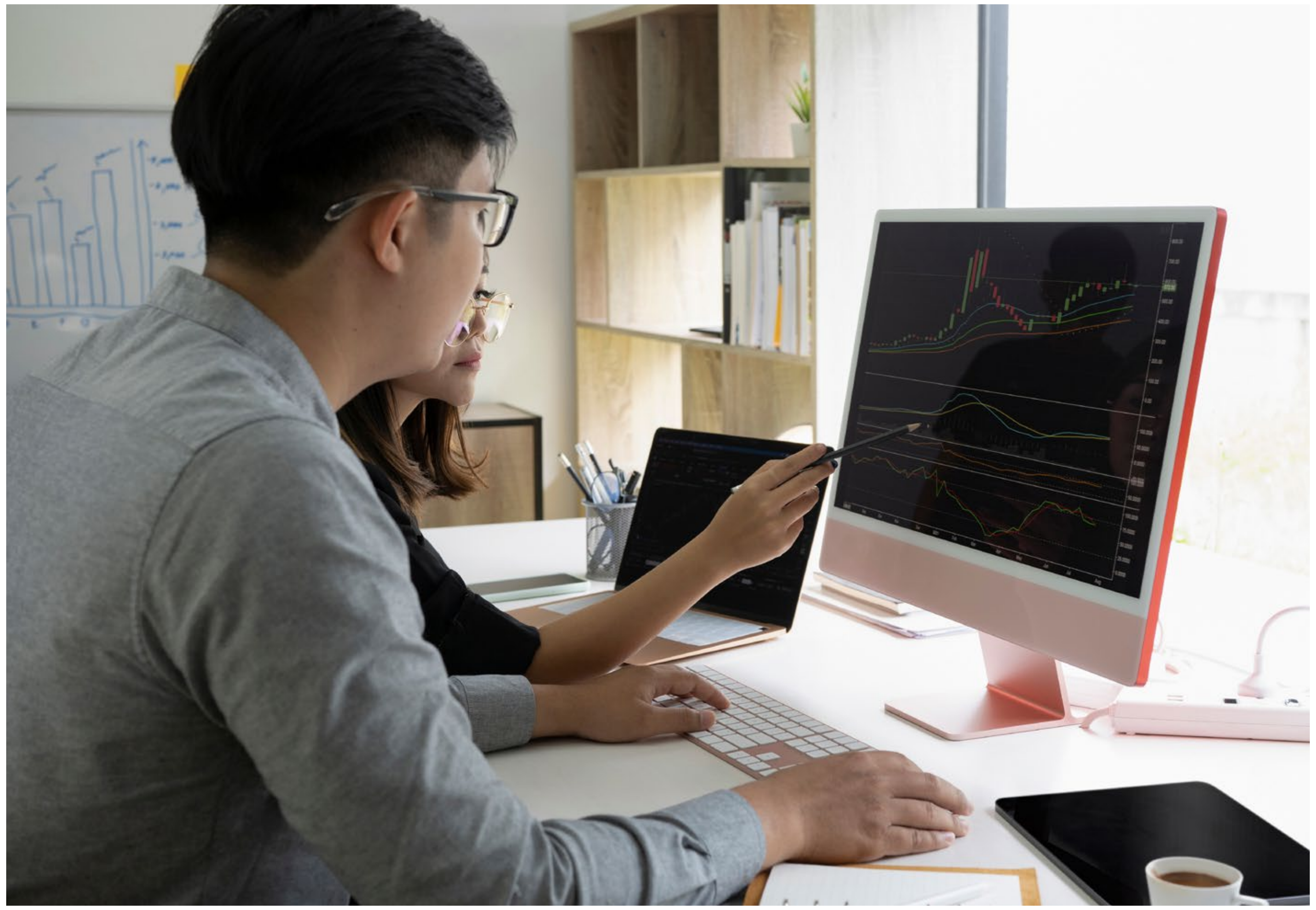

Hwang and Chen suggest that if investors want to be thought of as intelligent and competent, they may wish to share the quantitative articles – even when they themselves prefer the more accurate, qualitative articles.

consumption, sharing, and accuracy of quantitative and qualitative articles using server-log data from one of the United States' largest investment-related websites, Seeking Alpha. They then conducted experiments on 840 investors.

Seeking Alpha

Seeking Alpha hosts almost one million stock opinion articles and attracts upwards of 15 million visitors each month. For every article published from August 2012 to March 2013, the researchers have data on the number of read-to-ends (a reader scrolled to the bottom of an article) and the number of shares (a reader shared an article via e-mail).

The researchers found that qualitative articles tended to be more accurate than their quantitative counterparts. Moreover, these were the articles that readers chose to read to the end. The content that readers chose to share, however, was the less accurate, quantitative material. In other words, while Seeking Alpha users chose to read more qualitative articles, the quantitative articles generated considerably more shares and subsequently became more significant in investors' conversations.

So why would generally well-informed investors choose to share the less accurate opinions with their colleagues, friends, and family? Again, the social psychology literature notes that quantitative content is more suitable for creating impressions of intelligence and competence. Hwang and Chen suggest that if investors want to be thought of as intelligent and competent, they may wish to share the quantitative articles – even when they themselves prefer the more accurate, qualitative articles. Peer opinions thus inadvertently drive investors to share the less accurate stock opinion articles.

Impression management and choice

The second part of the study involved an experiment on 840 investors, many with net investable assets exceeding USD300,000. The researchers selected a quantitative and a qualitative article from Seeking Alpha. Both articles were given to all the participants, and the participants were asked whether they would share the article(s) with their peers. Participants were randomly assigned to two groups – a control group and a treatment group. Before being queried whether they would share the articles, the participants in the treatment group were asked to think about and describe a situation where they did not look as knowledgeable in the eyes of their co-workers. The goal of this seemingly unrelated task was to threaten the participants' egos and boost their desire to create impressions of intelligence and competence.

After tracking which participants shared which articles, the researchers found that members of the treatment group (ie, those whose egos were threatened) were significantly more likely to share the quantitative article, showing that impression management can be a strong determinant of the content investors choose to share with their peers.

Conclusion

Hwang and Chen show that word of mouth may not be the most reliable source to inform investors' decisions and that social interactions can mislead. In subsequent tests, the researchers also examine the consequences of investors' reliance on word of mouth for the stock market. Their analyses indicate that an abundance of sharing can lead to overpricing.

Word of mouth may not be the most reliable source to inform investors' decisions.

Personal response

What initially sparked your interest in finance?

My story of how I became interested in finance is related to this study. When I was in high school, I knew I wanted to study business. But I did not know what to specialise in within business. At my business school, finance was considered the sector the best and brightest students would enter. Being insecure and caring a lot about my 'public impression', I chose finance. It ended up being a fantastic choice. I greatly enjoyed my studies, and I now love conducting research on investors and financial markets. In my particular case, I feel that peer opinions were actually quite helpful, albeit in a very indirect manner.

Why do investors allow impression management to influence their sharing?

I think it's part of human nature. We don't intentionally send the less value-relevant content to our friends and colleagues. It's just that we can't help but care deeply about how our friends and colleagues perceive us. As a result, we sometimes end up sharing content that is great for self-presentation, even if the value relevance is comparatively low. We can probably trace the origins of this behaviour to our evolution. As we started living within larger groups, our survival and wellbeing became strongly tied to how others perceived us. So self-presentation considerations became part of human nature, and it's not something we can easily turn off.

What has been the most satisfying aspect of this research?

The interdisciplinary nature of this research. Our research is heavily rooted in social psychology. It has been fun studying the social psychology literature and testing whether some of their ideas can explain the behaviour of investors. Right now, there is not much interaction between social psychologists and financial economists. I think there is much we can learn from social psychologists; there are also a few ideas, settings, and data in the finance literature that social psychologists might find interesting. It would be nice if there was greater sharing and collaboration between social psychologists and financial economists in the future.

How do you plan to extend your research into impression management?

If investors rely heavily on word of mouth and if word of mouth can be inaccurate, it is conceivable that word of mouth also generates mispricing in financial markets. I think testing this possibility is the natural next step for this literature. Our paper conducts some preliminary analyses on this question. But we need much more evidence before we can form a reasonably strong conclusion regarding the consequences of word of mouth for stock market efficiency.

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Bio

Byoung-Hyoun Hwang is the Provost's Chair in Finance and an Associate Professor at Nanyang Technological University, Singapore. Previously, he was an Associate Professor of Finance at Cornell University, USA. His main research areas are empirical asset pricing, behavioural finance, and social finance.

Collaborators

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References

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