Investor regret, share performance and the role of corporate agreeableness.

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Investor Regret, Share Performance and the role of Corporate Agreeableness.

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Abstract:
Drawing on regret and reputation literatures, the authors demonstrate how positive corporate associations can mitigate the effects of share performance on investor regret. Three studies are presented, the first involved the observation of six investment club meetings. The second is a survey of investors exploring some of the findings of the first study, specifically the relationship between investor regret and corporate associations. The final study uses an experimental design to test whether corporate social responsibility (CSR) messaging can influence regret in the context of disappointing share performance by influencing corporate agreeableness. The main findings are that a range of corporate associations are important to investors, more so than actual share performance, in their decision-making. Specifically, the more agreeable (e.g. trustworthy, supportive) the company is perceived to be, the lower will be any regret felt over share performance. Finally, CSR information was found to affect regret via an influence on agreeableness.
150 words
Keywords: Corporate reputation, Agreeableness, Investor Regret, Investor decision-making, Corporate Social Responsibility (CSR)

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1. Introduction

11.9% by value of the shares listed on the London Stock Exchange, are directly held by individuals with retail shareholders accounting for about 30% of the ownership of FTSE100 companies[1]. Decisions on the purchase or sale of financial instruments are among the most important consumers make (Raghubir & Das, 2009) both generally and, increasingly, to provide for their retirement. People choosing to invest in particular stocks will learn about future stock prices not only for their chosen stocks, but also for those they did not choose (Zeelenberg, 1999, p. 97). Consumers generally receive post-purchase information about any brands they reject (Davvetas & Diamantopoulos, 2017). When it comes to shares, these comparisons are more measurable, 'An investor who thinks, for example, "If only I had bought Google stock, I would have earned much more" feels regret' (Huang & Zeelenberg, 2012, p.441).

Zeelenberg defines regret as 'the negative, cognitively-based emotion that we experience when realizing or imagining that our present situation would have been better had we acted differently' (1999, p. 93). 'Regret is experienced when it turns out, in retrospect that you should have chosen something different. For example, when you invested your uncle's inheritance in a particular option and find out that another option would have provided you with a much larger profit, or when you, while negotiating, decided to make the other party a too generous offer and learn later

[1] https://www.sharesoc.org/investor-academy/advanced-topics/uk-stock-market-statistics/ accessed 27.7.18

that they would also have accepted a much lower offer' (Zeelenberg & Beattie, 1997, p.64). It can be highly threatening for the brand that elicited it and there is a clear need to identify managerial strategies which immunize brands against regret (Davvetas & Diamantopoulos, 2017). Within the companies whose stocks are being traded, senior management will focus on improving the actual performance of their company and consequently its share price. However, marketers should also seek to minimize regret in order to protect their brand's equity (Davvetas & Diamantopoulos, 2017) should share performance not meet the expectations of shareholders. Against this background, the present study is the first to explicitly investigate the role of corporate associations in mitigating the effect of share performance on investor regret.

We aim to add to the growing literature on the potential influence of marketing on investor behavior. Companies spend considerable sums marketing shares especially at an Initial Public Offering (IPO) (Bahadir, DeKinder, & Kohli, 2015; Fine, Gleason, & Mullen, 2017). The results of a study by Fine, Gleason and Mullen (2017) using a sample of 2,103 IPOs indicated that spending more money on marketing before the IPO and disclosing this information produces positive bottom-line results for the firm. Consistent with Luo (2008), they found that pre-IPO marketing spending improves visibility, lessens information asymmetry, and means more of the proceeds of the equity issue are realised. They advise that managers invest in marketing to signal potential shareholders about the firm's growth prospects, and that a focus on intangible assets is maintained for their shareholders to obtain long-term market value benefits. Bahadir, DeKinder and Kohli (2015) found that greater media coverage raises expected prices (issuers' price expectations) to a greater extent than offer prices (the prices institutional investors are willing to pay).

We aim to add to our understanding of shareholders as customers and specifically to test the significance of corporate associations on investor regret. Our paper reports the results of three studies into investor decision-making. The first was a qualitative, exploratory study involving the observation of the meetings of investment clubs. The analysis of field notes, complemented by existing literature, identified a number of themes. Prominent among them were investor regret, share price performance and the associations made with the invested company. In the second, a quantitative study among individual investors, survey data were used to test whether the affective associations of the invested company can lower regret. The main finding was that the more the company is perceived as agreeable (e.g. trustworthy, supportive), the lower is regret. The final study used an experimental design to test further the linkages between the agreeable aspect of corporate associations, and regret, by manipulating corporate social responsibility messaging, and consequently how agreeable the company is perceived to be. The findings from study 3 identify how companies might influence their image for being agreeable so as to reduce any regret caused by their share performance. We discuss the implications for the marketing of equities and the management of investor relations.

2. Theoretical background: In this section the theoretical background to the paper is discussed.

2.1. Regret and Investment Decision Making

In the context of the marketing of equities, regret, rather than for example satisfaction, is often seen as a focal outcome. Zeelenberg and Pieters (2007, p.32) propose that, "Regret is a comparison-based emotion of self-blame, experienced when people realize or imagine that their present situation would have been better had they decided differently in the past." Regret is the consequence of comparing what is with what might have been (Lin, Huang, & Zeelenberg, 2006). 'Regret is an aversive state, and it is therefore not surprising to see that we do not sit and wait for this emotion to occur' (Zeelenberg & Beattie, 1997, p. 64).

Regret theory is a modified version of standard expected utility theory. Both assume that the expected utility of an option depends on the calculus of pain and pleasure associated with the outcomes of that option. They differ in that, in the former, the expected utility of an option depends additionally on the regret that one may experience by comparing the outcomes of that option to the outcome of a rejected option (Loomes & Sugden, 1982). Regret puts the consumer in a negative emotional state (Zeelenberg & Pieters, 2007). Decision makers' fear of future regret influences their current behaviour (Janis & Mann, 1977) while consumers' perception of perceived risk mediates the effects of any anticipation of regret (Chen, Teng, Liu, & Zhu, 2015). Other studies show that the regret that is experienced as a consequence of decision outcomes is enhanced by feedback (e.g. Inman, Dyer, & Jia, 1997; Taylor, 1997). The counterpart of regret is pride and the search for pride and the avoidance of regret leads to a tendency among investors to realize gains and defer losses (Shefrin & Statman, 1985). In this context, the tendency to 'sell winners too early and ride losers too long' is referred to as the disposition effect (Shefrin & Statman, 1985). 'Losing $100 hurts more than gaining $100 yields pleasure….The influence of loss aversion on mental accounting is enormous' (Thaler, 1999, p. 185).

Regret can be influenced by the outcomes of inaction, expectation, and the best-performing unchosen outcome (Lin et al., 2006). The outcome that is forgone (the earlier sale of a falling share, the decision not to buy a rising share earlier) acts as a reference point for the investor (Huang & Zeelenberg, 2012) although regret can be experienced even when what is forgone might not be fully known (Tsiros & Mittal, 2000). Strahilevitz, Odean and Barber (2011) propose that investors' behaviour reflects their reactions to trading and their attempts to distance themselves from negative emotions such as regret. Investors can engage in reinforcement learning by repurchasing stocks whose previous purchase resulted in positive reactions and by avoiding stocks whose previous purchase resulted in a negative reaction. The price performance of a share is important to such feelings (Lin et al., 2006) but investors will often hold onto shares despite poor financial performance and sell shares that are performing well (Shefrin & Statman, 1985) emphasising that investors are not completely rational decision makers (Kahneman & Tversky, 1979). Investors also report more regret about holding onto a losing stock too long than about selling a winning stock too soon, suggesting they are consistently engaging in behaviour that they have been warned can cost them money and that they regret later (Fogel & Berry, 2006).

2.2. Corporate Associations and Investment

The associations that come to mind about a company will influence our behaviour towards its products and services including its shares. Corporate Associations is defined as all the information that a person holds about a company (Brown & Dacin, 1997) including any perceptions, inferences or beliefs. The term is similar in meaning to corporate reputation, defined as the 'perceptual representation of a company's past actions and future prospects that describe the firm's overall appeal to all of its key constituents when compared with other leading rivals' (Fombrun, 1996, p.72). Reputation is also seen as a reservoir of goodwill (Jones, Jones, & Little, 2000) akin to an insurance against an uncertain future (e.g. Eisingerich, Rubera, Seifert, & Bhardwaj, 2011).

How positively or negatively as an investor we perceive a company to be is related to its stock price (Raithel & Schwaiger, 2015) and to its level of systematic risk (Delgado-García, Quevedo-Puente, & Díez-Esteban, 2013). But companies with stronger ratings for social responsibility can also be priced at a premium (Alsop, 2004). Tischer and Hildebrandt's (2014) review of the literature on corporate reputation and shareholder value emphasises the relevance of such associations to investors. Even professional investors show higher levels of loyalty to companies they evaluate positively and they tend to stay invested in them, or give them comparatively positive ratings, including in a time of crisis (Fieseler, Hoffmann, & Meckel, 2007). Retail investors' views of their invested company are also positively related to their satisfaction and loyalty (Helm, 2007). Specifically, retail investor behaviour can depend upon whether the company is 'liked' (Lucey & Dowling, 2005) and 'trusted' (Ryan & Buchholtz, 2001). This implies that investors often make decisions based on perceptual as well as more objective factors (see also Kahneman & Tversky, 1979; Shefrin & Statman, 1985; Thaler, 1999). Less is known as to how such views can influence the regret investors might experience.

3. Study 1: Initial qualitative research

Our first choice of methodology was observation which meant no presumptions have to be made by the researcher as to what to focus upon (Boote & Matthews, 1999). The monthly meetings of UK investment clubs, in other words the observation of 'real' investors using 'real' money, who were meeting with the purpose of making investment decisions, provided our context. Traditionally, research into investor decision-making has mainly been in the form of experiments or hypothetical choice problems (e.g. Heath & Soll, 1996; Kahneman & Tversky, 1979; Thaler, 1985). Investment clubs offered us a way to observe decisions made in a real life setting.

3.1 Method

Investment clubs are defined as 'groups of 10 to 15 people who meet monthly to invest in a jointly held stock portfolio, much like do-it-yourself mutual funds' (Harrington & Fine, 2006, p. 14). Thus the purpose of meetings is to review and make decisions on the purchase and sale of stocks. Clubs have office bearers such as a chairperson, treasurer and secretary. Commercial sources claim that the first clubs in the UK were set up in the 1950s and that numbers grew slowly, so by 1995 there were still only 300 (The Motley Fool, 2006). More current estimates suggest over 12,000 clubs with over 100,000 members[2]. The work reported here is from observation of 6 meetings of 4 UK based investment clubs. Field notes were used to record what the researcher saw as significant (Elliott & Elliott, 2003) in terms of what was said or discussed relating to investment decisions. At the meetings one author adopted the role of participative observer, specifically that of a passive participant, taking notes of what was said, and the actions taken, alongside using a reflective journal to draw tentative inferences from them (de Walt & de Walt, 2011, p 22). The focus for all three types of note was to document all examples of comments or information that were associated with a discussion or decision to buy, hold or sell a share. Observations regarding strong facial expressions, body language and tone of voice were included in the field notes.

Each club had between 6 to 12 members present for the meetings, and, in total, 35 members were observed, which is in line with the number of participants recommended for ethnographic studies (Morse, 1994). Members varied greatly in terms of age, profession and in the amount they invested. The research strategy drew from Schofield (1990) and used the first club as an in-depth study to identify apparent factors influencing decision-making norms and processes that could be compared with the literature. Three meetings of this club were attended over a period of four

[2] http://www.proshareclubs.co.uk/ accessed 28.11.17

months. To confirm the findings and establish their general applicability, three more investment clubs were visited once each.

The focus of such an ethnographic investigation typically narrows over time (Hammersley & Atkinson, 1983; Spradley, 1980). The process was driven by the idea of data saturation, the point in data collection and analysis when new information produces little or no change to the codebook (Guest, Bunce, & Johnson, 2006).

Triangulation, by reviewing the minutes of the previous three monthly meetings of all the four investment clubs and their investment records, was used to further confirm saturation as well as exploring different levels and perspectives of the same phenomenon (Fusch & Ness, 2015). This proved useful, for example, in confirming the presence of disposition effects among members by identifying any sale of shares that were doing well and the retaining of shares that had fallen in price below a stop loss trigger.

3.2. Results and discussion

The detailed field notes made during the observations of the investment club meetings were transcribed and compiled and content analysed by one author, first to identify any factors that were consistently present. In the first round of analysis the transcripts were read line by line to code all elements (Kassarjian, 1977) that appeared relevant to decision making. This resulted in a total of 234 coded items. These were grouped into 15 different elements that covered every aspect of the discussion undertaken with regard to each decision and the frequency of each element was noted. The 15 elements were confirmed and refined by referring to published work in three literatures; corporate reputation, behavioural finance and regret, as each emerged as relevant. The second author acted as a second coder and his role included examining the evidence from both the notes and the literature to validate the themes. In a second round of analysis, elements that contained similar ideas were merged together, resulting in 12 elements. In the third and final round of analysis these elements were merged again under four key themes: corporate association, regret, share price performance and investor sentiment (Table 1). Each is now substantiated in turn.

1. C	**A.[1] (35)**	11	12	0	2	5	5

Table 1: Content analysis summary

	B.[2] **(36)**	8	9	0	2	10	7
	C.[3] **(34)**	6	10	3	2	10	3
	D.[4] **(13)**	0	2	3	0	2	6
	E.[5] **(10)**	5	2	0	2	1	0
	F.[6] **(17)**	4	8	3	1	1	0
2. **REGRET (35)**		10	9	10	3	3	0
3. **SHARE PRICE PERFORMANCE (34)**		4	14	2	6	5	3
4. **INVESTOR SENTIMENT (20)**		0	4	5	2	6	3
TOTAL (234)		**48**	**70**	**26**	**20**	**43**	**27**

A.[1] **Press Image and Visibility**
B.[2] **Industry Sector**
C.[3] **Company Performance**
D.[4] **Affective views of Company**
E.[5] **Potential acquisition or merger**
F.[6] **Degree of Risk**

3.2.1 Corporate Associations

Corporate associations emerged as the strongest theme from the content analysis relevant to the decision making of the investors, in terms of the number of codings

(145 of a total of 234). Within this six sub-factors, each established in the literature, could be identified. These were (in no particular order):

3.2.1.1. Press image and visibility: Members frequently introduced examples of press comment to support their decision making. In total there were 35 coding instances including:

'...you keep hearing more negative news about the shares of other banks….not so much for this one..' a member of the third investment club.

'…the review gave a big thumbs up for it which is a big tick in the box for me…' a member of the third investment club.

'…in loss now but considered a very good company by Investors Chronicle…let's hold on to it' a member of the first investment club.

In the first investment club there was an example of a share that was in greater loss at each meeting. Yet the members believed the company to be 'doing very well' based on media reports and decided to hold on to the shares each time, so much so that in one meeting they decided to buy more shares in the same company on the grounds that this was a 'good company' and worth buying more shares in at a low price. The extant literature helped explain and support the significance of positive media mentions to the investor. Reporters act as intermediaries, helping us make sense of a company's complex activities (Fombrun, 1996). The performance of companies can also be influenced by having a good (Deephouse, 1997) or bad (Fombrun & Shanley, 1990) media reputation. The media influence investor choice, for example by helping to legitimatise initial public offerings (Pollock & Rindova, 2003). Firms recognise the potential of the media, employing the services of specialist public relations individuals or companies specifically to influence financial journalists.

3.2.1.2. Industry sector: Closely allied to the first sub-factor, members frequently referred to the industry sector the company were a part of, using data from their own research which often included specialist media. There were 36 coding instances including:

'…the industry is not predicted to do too well…' a member of the first investment club.

'..it's in a sector that will not be affected by consumer spending…' a member of the first investment club.
'…even though interest rate has gone up people will spend on it, it's a matter of health' a member of the first investment club.
'*In longer term banks don't do badly. I have had Lloyds shares for a long time. It got slashed at one time but its doing well now'* a member of the second investment club.

Bernstein (1984) argued that our image of an organization is seen through a number of filters, in particular the industry the company forms a part of. This influence varies over time with 'hot' industries amassing more reputational capital (Fombrun, 1996), adding credence to the relevance of the industrial sector to corporate reputation. Some companies suffer from being a part of an industry viewed with suspicion; tobacco and armament firms 'will start a metre or two behind the rest of the field in the competition for a positive reputation' (Davies, Chun, Da Silva, & Roper, 2003).

3.2.1.3. Company performance: This heading refers to the performance of the company behind the share. The comments were distinct from those relating to share price movement, and, although ultimately the two should be linked, current performance does not always mean future share price growth or decline, as markets tend to price in current sentiment. There were 34 coding instances including:
'…as per the figures the company is doing very well' a member of the first investment club.
'…it's a cash rich company' a member of the third investment club.

Both quotes illustrate a larger number of general comments about the company's commercial performance that implied the company had a good reputation for financial performance, reflecting elements of some reputation measures (e.g. Fombrun, Gardberg & Sever, 2000).

3.2.1.4. Affective views of the company; 13 instances, for example:
'RBS looks more attractive' a member of the third investment club.
'*… it's a 'good' share to hold on to*…' a member of the third investment club.

'…I feel comfortable with this share…' a member of the first investment club.

Each example is a (positive) comment about a share or company but one not linked by the speaker to any substantive evidence. Corporate reputation/association has been defined in terms of the more evaluative judgements we make about an organization (Highhouse, Broadfoot, Yugo & Devendorf, 2009, p. 783) and the positive (or negative) feelings individuals hold about a company have also been incorporated into measures (e.g. Davies et al., 2003; Ponzi, Fombrun, & Gardberg, 2011). Earlier we mentioned the links between retail investor behaviour and whether the company is 'liked' (Lucey & Dowling, 2005) and 'trusted' (Ryan & Buchholtz, 2001).

3.2.1.5. Potential acquisition or merger of company; 10 instances, for example:
'…a rumoured bid of the company is on the cards…' a member of the first investment club.
'..good potential for a takeover..' a member of the second investment club.
Mergers can be seen as creating synergy and investors can react positively to such news (Rosen, 2006) but mergers can also decrease a company's perceived worth as the potential for increased profit is not always realised (Cartwright & Cooper, 1996) leading to falls in the share price of companies announcing acquisitions. If the company are seeking to diversify, this also tends to negatively influence assessments of reputation (Fombrun & Shanley, 1990). However, being a potential target for acquisition was seen here as a positive reason for investment.

3.2.1.6. Degree of risk; 17 instances including:
'…it's a classic, safe share…' a member of the first investment club.
Compared with,
'…it has a volatile chart….' a member of the second investment club.
Note the difference between the nature of the examples, the second being quite objective compared with the first. Better-rated companies tend to have less volatile stock prices (Fombrun, 1996). Srivastava, McInish, Wood and Capraro (1997) concluded that if a firm improves its reputation, it benefits from a risk-reducing effect and thus is able to reduce its required rate of return.

The six themes have all been linked to both corporate associations and reputation in the literature particularly in their measurement (although neither term was used by investors at any meeting). Some comments were objective but many were less so, a point we revert to later.

3.2.2. Regret

Regret was identified as the second most important factor, in terms of number of mentions, with 35 instances in the content analysis. These included examples of regret experienced as a result of decisions taken previously:

'…we sold that share last time...and then it did go up…' a member of the first investment club.

The context here pertained to a share having been sold too early and the speaker's tone of voice had a 'I told you so' element to it as if to indicate he had previously resisted selling the shares at that price.

'..the price dropped last month…we definitely bought high there…' a member of the second investment club.

The researcher here made a note of 'looks visibly upset' in the field notebook. In both instances the speaker's tone of voice was even more evocative of regret than the words themselves.

Shares in loss were held onto, despite having reached a 'stop loss' (a figure set by the club to trigger an immediate sale if a share price fell below the chosen figure) in the hope that they will come into profit shortly. For example:

'…We are in a mood of protecting ourselves. If we hold on to it we may be able to dispose of at better rate….' a member of the first investment club.

'…let's just watch this share…it'll have growth and it'll revive…' a member of the third investment club.

Regret owing to a stop loss having been triggered, resulting in sale of shares, was a common theme across all investment clubs.

'*…as soon as the stop loss is triggered it bounces back…*' a member of the fourth investment club.

‘*it’s worthwhile to look at shares we had to sell because they went through stop loss. One that struck me is Climate Exchange. Its bounced back quite well. We sold it because it hit stop loss...*’ a member of the fourth investment club.
‘*…we initially attached stop loss as a caveat…but it was only activated for a few minutes and shouldn’t have been sold*…’ a member of the second investment club.

While a stop loss figure was set jointly by the members of each club at the time of its purchase, members often disagreed with shares being sold because it had been triggered. The researcher witnessed an argument among the members of the first investment club when this happened, resulting in revised stop losses being set for some shares so as not trigger them and stop losses being removed altogether for other shares. It is worth repeating that members were so upset at the sale of shares triggered by the stop loss, not only did they move/remove the stop loss of two other loss making shares, they bought more shares in the same companies.

3.2.3. Share Price Performance

The content analysis revealed only 34 instances where the actual performance of the share was mentioned, although the topic should have been relevant in all meetings. Most comments related to share price movement, for example:
‘…the performance of the share seems to be flattening off…’ a member of the first investment club.
‘..chart looks excellent…its already up a little’ a member of the second investment club.
‘…the chart is going downwards…’ a member of the second investment club.

Club meetings always included a review of the group’s investments as an agenda item. What is then perhaps surprising is that discussion of share price movement or the firm’s financial performance since the previous meeting did not feature more strongly. Dividends and dividend history received little comment.

3.2.4. Investor Sentiment

Investor sentiment has been defined as: ‘beliefs held by some investors that cannot be rationally justified’ (Morck, Shleifer, Vishny, Shapiro & Poterba, 1990, p. 157). Here we define it as ‘the beliefs of investors relevant to the situation of the share market and that of specific shares’. This category includes opinions (rather than factual data) as to whether a share is over-priced or under-priced and whether it is a good time to buy any particular share or not.

The content analysis identified 20 instances where sentiment was important to decision-making and it appeared equally relevant across all the clubs. Examples included:

‘...not a good time to invest…not a massive buyers’ market..’ a member of the first investment club.

‘..maybe it’s the right time to sell..’ a member of the fourth investment club.

‘...company has been battered and it looks like a good time to buy the shares…’ a member of the first investment club.

‘...whether we should buy at all as the market is doing badly.’ a member of the first investment club.

When investor sentiment affects the demand of enough investors, security prices diverge from fundamental values, such as a share’s price-earnings ratio, its dividend payout, and earnings-per-share growth. Consequently, stock prices respond not only to hard news, but also to changes in sentiment (Morck et al., 1990). The trading activities of investors can contain a common directional component and when they buy (sell) one group of stocks, they tend to buy (sell) other groups. Evidence suggests that changes in portfolio-level retail sentiment may induce a co-movement in stock returns (Kumar & Lee, 2006, p. 2453). ‘There seem to be good theoretical as well as empirical reasons to believe that investor sentiment, also referred to as fads and fashions, affects stock prices’ (Morck et al., 1990, p. 157).

3.3 Regret and Corporate Associations

In summary, the research identified various factors that could be grouped together under the definition of corporate associations at meetings whose purpose was to make decisions on investments. Regret and share price performance were also clearly relevant, but it was interesting to note that corporate associations not directly related to the financial performance of the company appeared more important to the discussions than the price performance of the share. We also noted instances where investors had regretted selling a share or when decisions had been taken that conflicted with more rational analysis because the company was felt to have positive (particularly affective) associations. One example among a number stood out, that of a share whose price had fallen below the stop loss set by the club. The club's broker, with the permission of the club's chairperson, had sold the share. This caused a degree of heated discussion at the next meeting as the company were regarded by other members as a 'blue chip' and the price fall was seen as 'temporary'. The members voted to repurchase the share (it subsequently declined much further). Regret generally reduces the likelihood of repurchase (Magron & Merli, 2015), but being a 'blue chip' company somehow validated this particular decision.

Such examples and our wider analysis led us to consider how the three most prominent themes in Study 1 (share performance, regret and corporate associations) might be linked. Regret is influenced by share performance (Kahneman & Tversky, 1979; Thaler, 1985). Prior work has also shown that reputation can influence outcomes such as investor satisfaction and loyalty (Helm, 2007). Prior work outside of investment behaviour has shown the effects of negative news about a company in the future can be reduced by building reputational capital (Vanhamme & Grobben, 2009) suggesting that building reputational capital can mitigate any negative feelings experienced if a purchase disappoints. Regret might then, we conjectured, be influenced by the investor's perception of a company, although the idea had not been previously tested. Consequently, we were interested to test the relative influence of share performance and company reputation on regret, and, in our second study (which immediately followed the first study), we decided to test the following proposition:

Investor regret concerning share performance will be reduced by any positive associations the investor makes with the company.

4. Study 2: Survey of Investors:

In our second study the proposition mentioned above was tested by administering a survey to individual investors. Using the survey, we tested the extent to which regret can be predicted by such associations while controlling for share performance (and investor demographics).

4.1. Method

Respondents to Study 2 were active (individual) investors in the share market and needed to hold a minimum of two shares at the time of completing our questionnaire, where one of the two shares was performing below expectations and the other performing above or at par with expectations. Convenience sampling was used for data collection. A pilot survey with 8 respondents was undertaken in person to ensure the questionnaire was suitable and the main questionnaire was administered via e-mail and by hard copy. Some respondents were members of an investment club; however data collection was based only on their individual and private investments outside those of the club. Incomplete, missing or otherwise unusable data were less than 10% of that collected from 37 individual investors leaving usable data for 68 shares. 73% of the respondents were male and 27% female.

4.2. Control variables

To control for share performance we decided not to use objective measures such as share price movements as it would have been difficult to compare such data between shares. Instead we were guided by Lin et al.'s (2006) observation that post-decisional regret can be triggered when the outcome falls below an investor's expectations. They noted that share investors had expectations about their future profits, about their willingness to invest in specific stocks and about the degree to which these investments would satisfy their needs. Thus, we measured share performance using the respondent's identification of the share as falling above or below their expectation. Two further control variables were included, age and gender as both had previously been shown to be significant in investor decision-making (Bajtelsmit & VanDerhei, 1997; Bajtelsmit, Bernasek, & Jianakoplos, 1999; Harrington, 2008; Lewellen, Lease, & Schlarbaum, 1977; Prince, 1993; Zhong & Xiao, 1995).

4.3. Measures

Regret has been be measured in a number of ways, as a single item or linked to a measure of satisfaction (e.g. Fogel & Berry, 2006; Tsiros & Mittal, 2000). We used the Regret Experience Measure (REM) developed by Creyer and Ross (1999) an established, multi item scale designed to measure the 'experience of regret' (p 380). After the pilot, two items in the original 8 item scale that were deemed repetitive were combined. The wording of some items in the scale was also adapted to the context of this research. Items included such as 'I regret my choice' and 'I realise now that I should have chosen differently'.

We chose an affective measure of associations/reputation, the Corporate Character Scale (Davies et al., 2003). It uses the widely adopted idea of brand personality, a projective technique, to assess whether a company is seen, for example, as trustworthy, innovative and reliable. It is then compatible with prior work on affective associations influencing investors (Lucey & Dowling, 2005; Ryan & Buchholtz, 2001) and had been used to assess the views of investment analysts of a company (Davies et al., 2003, p. 262).

We used 3 of the measure's dimensions that can be expected, from the literature, to be relevant to the context of this research. *Agreeableness*, measured by such traits as honest, reassuring and trustworthy, is the most important dimension in predicting customer satisfaction generally (Davies et al., 2003). It also takes into account the affective views of the company identified as a sub-factor of corporate reputation in study 1 and in prior work among investors (Ryan & Buchholtz, 2001). *Competence* contains the traits of leading and reliable, and is regarded as having a major influence on customer perceptions of corporate ability (Brown & Dacin, 1997). Traits under this dimension can also be expected to take into account the degree of risk sub-factor of corporate associations noted in study 1. Agreeableness and Competence are common to most measures of brand personality (Geuens, Weijters, & De Wulf, 2009) and reflect the dimensions of 'warmth' and 'competence' argued to be fundamental to how humans perceive organisations (Kervyn, Fiske, & Malone, 2012). To these we added *Enterprise*, containing the traits of being innovative, imaginative and daring, descriptors traditionally associated with corporate growth and performance (Odagiri, 1983). Similar traits were also noted in Study 1.

Respondents were asked to choose one share that they currently held which met/exceeded, and one that was below, their expectations. For each share they were asked to respond to the regret measure on a seven point Likert-type scale where one= disagree completely and seven =agree completely. They were then asked, for each share, to imagine the company had ‘come to life’ as a human being and to rate its personality for each trait using a five-point Likert-type scale from one =strongly disagree to five = strongly agree.

Share performance above expectation was coded 2 and below as 1. In the case of gender, female was coded as 2, and male was coded as 1. Respondents were asked to indicate their age by ticking one of 8 boxes from 16-24 to 85-90.

4.4. Results and discussion

The measurement scales yielded Cronbach alpha scores above 0.8; these and construct to construct correlations, means and standard deviations are given in Table (2). The AVE for each variable ranged from 0.52 to 0.70 (indicating an acceptable level) and the range of squared inter-variable correlations between the four compound variables was from 0.16 to 0.48. The AVE’s were all higher than the highest squared inter-correlations involving any one construct demonstrating discriminant validity between the measures.

Table 2: Correlations Between Constructs, Cronbach Alpha Scores on the Diagonal and Means of Data

	CONSTRUCT	1	2	3	4	5	6	7
1	Agreeableness	.929						
2	Enterprise	.580**	.813					
3	Competence	.691**	.570**	.823				
4	Investor regret	-.655**	-.402**	- .471**	.925			

5	Gender	.155	.024	.004	-.173			
6	Age	-.370**	-.311*	-.262*	.033	-.279*		
7	Share Price Performance	.341**	.095	.287*	-.618**	-.037		
	Mean	3.48	3.43	3.67	3.12	1.27	4.36	1.53

**. Correlation is significant at the 0.01 level (2-tailed).*. Correlation is significant at the 0.05 level (2-tailed).

We tested our research proposition using hierarchical multiple regression (enter procedure) where the dependent variable was regret and the independent variables were the control variables, (share performance, age and gender) and the three dimensions of corporate reputation. The controls were entered in a first block and the three dimensions of reputation (the test variables) in the second, as mean scores, to assess whether there was any additionality in predicting regret, having first accounted for the variance explained by the controls. Tables 3 a-c summarise the analyses.

Tables 3a, b & c Hierarchical Multiple regression predicting Investor regret and Model summaries

Coefficients[a]

Model		Standardized Coefficients Beta	t	Sig.
1	(Constant)		7.847	.000
	Age	-.049	-.490	.626
	Share Performance	-.627	-6.484	.000
	Gender	-.210	-2.087	.041
2	(Constant)		11.225	.000
	Age	-.260	-3.142	.003
	Share Performance	-.457	-5.714	.000
	Gender	-.182	-2.330	.023
	Agreeableness	-.489	-4.234	.000
	Competence	.022	.207	.837
	Enterprise	-.161	-1.662	.102

3a Hierarchical Regression

Model	Adjusted R Square	Std. Error of the Estimate	Change Statistics: R Square Change	F Change	df1	df2	Sig. F Change
1	..394	1.27	.422	15.09	3	62	.000

2	.648	.967	.258	15.90	3	59	.000

3b Change Statistics

Model		B	Bootstrap[a]		
			Sig. (2-tailed)	95% Confidence Interval	
				Lower	Upper
1	(Constant)	7.450	.001	5.153	9.470
	Age	-.056	.666	-.283	.244
	Share Performance	-2.032	.001	-2.673	-1.385
	Gender	-.762	.051	-1.448	.055
2	(Constant)	11.475	.001	9.274	13.774
	Age	-.298	.006	-.465	-.081
	Share Performance	-1.481	.001	-2.045	-.929
	Gender	-.660	.016	-1.181	-.145
	Agreeableness	-.871	.002	-1.323	-.435
	Competence	.046	.858	-.542	.571
	Enterprise	-.317	.107	-.701	.061

3c Bootstrap analysis based on 1000 samples

The first model takes only the control variables into account. Both performance ($p<.001$) and gender ($p<.05$) were significant. When agreeableness, competence and enterprise were included, the control variable age also became significant ($p<.005$) and the significance of gender also improved ($p= .023$). Age had a standardized beta value of -.260 ($p<.01$), the older the investor, the lower the investor's regret. Gender was of less importance, standardized beta value -.182 ($p<.05$) but suggested that males experience less investment regret. Share performance continued to dominate from among the control variables, with a standardized beta value of -.457 ($p<.001$) the sign confirming that regret is reduced as performance increases.

Among the corporate associations, only agreeableness was significant with a standardized beta value of -.489 ($p<.001$), the more agreeable the reputation of the company (the share of which has been invested in) the lower was regret. Hence the research proposition is supported for corporate agreeableness. The variable is also the most important predictor in the model, with a standardized beta value higher than that of share performance. While the relevance of share performance for investor decision-making and regret has been previously identified in various literatures (e.g. Clark-Murphy & Soutar, 2004; Lin *et al*., 2006), the relevance of corporate associations has been largely ignored.

A bootstrap analysis (Table 3c) shows that the significant independent variables remain negatively related to the dependent variables across the sub-samples. When we analyzed the relative ability of the individual items used to measure Agreeableness to predict regret, using stepwise regression and retaining the control variables, one item was retained, that of 'concerned'.

5. Study 3: Agreeableness and Regret

Establishing a link between corporate agreeableness and regret is interesting theoretically but not necessarily practically. One way to promote an increase in reputation generally and in trustworthiness, a key aspect of agreeableness, is to promote an image for corporate social responsibility (CSR) (Du, Bhattacharya, & Sen, 2011; Park, Lee, & Kim, 2014; Fatma, Rahman, & Khan, 2015). Furthermore, as both Vanhamme and Grobben (2009) and Klein and Dawar (2004) note, investing in corporate social responsibility (CSR) can mitigate the effects of any future crisis for the firm and here the 'crisis' is that of share underperformance. It follows that using CSR messages might mitigate the effect of share underperformance by improving perceptions of corporate agreeableness and that negative CSR messages might have the opposite effect.

5.1. Method

Study 2 was cross sectional and used data from a small sample (reflecting the challenges of obtaining large samples of investors willing to discuss their investments (Goetzmann & Peles, 1997; Hoffmann & Ketteler, 2015)). In our final study we used experimental design to test the linkages between CSR, agreeableness and regret due to holding rather than selling a falling share. Agreeableness was selected as the only dimension of corporate personality found relevant to regret in study 2. As mentioned previously in this paper, agreeableness refers to attributes such as trustworthy and supportive, attributes often linked in the literature to CSR.

Investment in CSR activities helps companies build moral capital, that serves as an insurance policy as it safeguards a company from negative stakeholder evaluation (Godfrey, 2005). Fatma, Rahman and Khan (2015) found that CSR activities build consumer trust in a company which in turn positively impacts reputation. They found that indirect effects of CSR activities on reputation are mediated by trust and that consumer trust may be viewed as an outcome of the firm engaging in CSR activities. Implementations of CSR initiatives help nurture consumers' trust in the corporation and its products (Castaldo, Perrini, Misani, & Tencati, 2009). Park, Lee and Kim (2014) also found that CSR activities create trust in the company, which in turn, brings about consumers' positive or improved perceptions of the firm.

Three hypotheses are implied by our second study and the available literature. From Study 2 we would expect regret to be reduced by increased agreeableness and, from the literature, for positive CSR communication to positively influence agreeableness (Castaldo et al., 2009; Park, Lee, & Kim, 2014; Fatma, Rahman, & Khan, 2015), hence:

H1a Regret from not selling a falling share will be higher under negative CSR messaging than under positive CSR messaging.

H1b Evaluations of corporate agreeableness in the context of not selling a falling share will be lower under negative CSR messaging than under positive CSR messaging.

H1c An increase in corporate agreeableness will be associated with a decrease in investor regret in the context of not selling a falling share.

Together the hypotheses imply that agreeableness has a mediating role between CSR and regret, which we will also test.

A sample of undergraduate students studying in at a business school in a single UK university were randomly allocated into one of three groups. Each group were given the same basic information, to imagine that they had inherited shares worth £2,000 when they had received them but that the shares had fallen in price and are now worth only £1150. They were told they had considered selling the shares when they inherited, as they needed the money, but had kept them expecting an increase in price. The control group were given just this basic information, the other groups were given, in addition, either positive or negative CSR messages relating to the firm's actions. The second group were told in addition that 'the company has received awards for its positive environmental policies', and that 'the company has a reputation for treating its employees well'. The third group were told instead that 'the company has been criticised for its poor environmental record' and that 'the company has a reputation for pressuring its employees'. Two types of manipulation check were included, a single item measure of being 'socially responsible' with a 5 point scale where 1= strongly disagree and 5= strongly agree, and in addition two questions asking which of the two statements they had been given in the vignette, for example to choose between 'a reputation for treating its employees well' or 'a reputation for pressuring its employees'. 143 students were recruited as volunteers with no promise of remuneration, 42 to the control group, 46 to the positive CSR group and 49 to the negative CSR group. Their mean age was 20.8 years in a range from 19 to 27. 49.6% were male.

6 questionnaires were rejected as containing missing values. 18 respondents failed to answer both the second manipulation checks correctly. The analysis that follows is from the 119 who answered correctly (eliminating data increased the significance of some tests but did not make any individual test significant). The manipulation of CSR proved successful with significant differences, using a t test, in the direction expected between the control (Cell 1) and experimental groups (Cell 2, positive CSR messages and 3, negative CSR messages), M_1=2.88 M_2=3.87 p<.001; M_3=2.33 p=.015. The regret and agreeableness measures were taken from the same sources as in Study 2 and both had alpha values greater than 0.8. The AVE's for agreeableness and regret were 0.57 and 0.71 respectively and the square of their correlation 0.073 indicating

that each variable had an acceptable AVE and discriminant validity between them. Respondents were also asked for their age and gender. Two additional measures were included as potential controls, a predisposition to trust scale (Becerra & Korgaonka, 2011) and a risk taking scale (Raju, 1980). The former was used to check that any differences in agreeableness might be due to differences in potential to trust and the latter to assess whether any differences in regret might be due to differences in risk aversion. Neither measure correlated significantly with either agreeableness or regret.

Table 4

	Control (cell 1)	+ve CSR (cell 2)	-ve CSR (cell 3)	P Cell 1vs 2	P cell 1vs 3	P cell 2 vs 3
Regret	15.71(5.58)	16.68 (4.53)	19.55(3.38)	.200	<.001	.002
Agreeableness	33.6 (7.46)	36.79(6.80)	27.0 (10.2)	.021	.001	<.001
n	42	38	29			

Means (s.d. in parentheses) for Regret and Agreeableness by Cell and Difference Significance

5.2. Findings

The most relevant comparison is between cells 2 and 3, those given positive or negative CSR messages respectively. Under positive messaging the mean scores for regret were significantly lower than under negative messaging (p= .002). At the same time the mean scores for agreeableness were significantly higher for the former group (p<.001). Hypotheses 1a and 1b are supported.

Agreeableness and regret were significantly negatively correlated (Pearson Correlation = -.270, p= .001) supporting H3. However, while there was a significant decrease in agreeableness from Cells 1 to 3 (p= .001) and a significant increase in regret (p<.001) the differences between cells 1 and 2 were not as marked. Agreeableness increased as expected (p= .02) but regret did not change significantly (p= .20). This implies that the effect of negative CSR messages is more pronounced than positive messages, at least in our context.

We tested the possible effect of our control variables (age, gender, predisposition to trust, risk taking and experienced investor or not) by adding them to a regression to predict regret from Agreeableness. Only the last proved significant, even when stepwise regression was used. Unlike in Study 2 there was no effect from gender or age.

Finally, we tested the mediating role of agreeableness on the relationship between CSR and investor regret. A value for CSR for each of the three cells (0 for negative, 2 for positive and 1 for no CSR message) was used in the Hayes macro model 4 (Hayes, 2012). The correlations between both CSR, agreeableness and regret were all significant. However, when regressed together to predict regret, only agreeableness remained significant, implying total mediation of the influence of CSR messaging on regret. The analysis of the indirect effect(s) of CSR on regret gave bootstrap limits of -.995 and -.122, not encompassing zero confirmed that the mediation effect was significant at $p<.05$. This strongly suggests that the effect of CSR messaging on regret is via a change in agreeableness.

6. Discussion

Theoretical implications

Our work both challenges and extends the dominant theory of investor attitude and decision making, that of the disposition effect. This holds that investors avoid taking decisions (particularly to sell at a loss) for fear of feeling regret. This research has shown that the investor's perception of the company can explain the level of regret felt, but tolerated.

We also add to the reputation literature one further example of how positive, affective associations can benefit a company and one compatible with the wider view of reputation as akin to an insurance policy against the possibility of future mishap. The benefits of positive associations have been acknowledged in prior work into financial markets as influencing the ratings assigned to companies by rating agencies (Fombrun, 1996) the opinion of financial analysts and financial journalists (Fieseler et al., 2007) and the investor's choice about IPO firms (Pollock & Rindova, 2003) but the impact of corporate associations relative to the actual performance of an investment had not been previously recognised.

Our first study established the relevance of corporate associations, ones that appeared at times to have little to do with the actual performance of a share, in understanding how and why shares are bought and sold. The context was the observation of real decision making by members of investment clubs. Generalising from such a context to the wider market for individual share dealings may be problematic as group decision making may be expected to be superior to that from individuals, albeit that there is evidence to the contrary that the portfolios held by such clubs do not outperform the market (Barber & Odean, 2000). Our second study however, with individual investors, demonstrated quantitatively a link between investor regret on the performance of a share and how agreeable the company behind the share was perceived to be. As far as we are aware this is the first time that the impact of share performance on regret has been shown to be mitigated by the reputation of the company, specifically its agreeableness. Our third study tested both this and the idea that CSR messages might influence both agreeableness and regret using an experimental design. All three studies point to the influence of corporate associations on regret when a share performs poorly and specifically to the role of agreeableness.

While there is clear evidence from our work that negative CSR messages add to the problems caused by underperformance, positive CSR messages did not have the expected effect on regret, even though agreeableness did increase significantly. One possible explanation is that of message incongruence (Osgood & Tannenbaum, 1955). Respondents in Cell 2 were given two messages that might be expected to influence regret, the (negative) fall in share price and the (positive) message on CSR performance. Prior research has shown that marketing messages which, while positive within themselves, conflict with what the individual already knows can have little impact (Kamins & Gupta, 1994; Lee, Lockshin & Greenacre, 2016; Wang, Beatty & Mothersbaugh, 2009). However, the negative CSR message is congruent with poor share performance, producing a clear negative effect on both regret and agreeableness for those in Cell 3. The mediation analysis in study 3 showed that CSR messaging is better thought of as influencing regret via an influence on corporate agreeableness, rather than any direct effect. Further work might usefully consider the impact of other factors on particularly corporate agreeableness to explore whether any incongruence effects might be eliminated.

Prior work has recognised that private investor decision-making can appear less than rational (Elton, Gruber & Busse, 2011; Yuan, Zheng & Zhu, 2006) particularly when compared with that among professional investors (Lai, Low & Lai, 2001). Contrary to rational wealth maximisation theory, investors will often respond emotionally when making (or avoiding) buying and selling decisions (Dreman, 2004). We add to that work both in the context of individual investors but also in the context of investment clubs.

Managerial implications

How a company is perceived, its reputation, is the consequence of all the experiences and information we have about the company. While such an attitude is not necessarily totally rational or based on objective assessment, it is both measurable and tractable. Our findings have then important implications for organisations seeking to mitigate any potential regret experienced by investors. This is of significance to publicly traded organisations as well as those planning to launch an IPO, as while poor share price performance can lead to investor regret, the more agreeable the company is seen to be, the lower will be the regret if the share does not perform as expected. Companies should therefore look to ensure that they are seen by investors as 'agreeable'. One way to do this would be to promote an image for being socially responsible as this can influence agreeableness and protect them from the effects of poor share performance on shareholder attitudes. However, this might not be as effective if the CSR messaging is done concomitantly with a poor share performance.
As regret has been associated with share purchase, sale and repurchase, enhancing agreeableness and thereby lowering regret may discourage sale and consequently a further fall in share price, but we did not test that here.

Limitations and further work

Our work has used observation of actual decisions, a cross sectional survey amongst investors and experimental design, countering the weaknesses inherent in using any one approach (Vallaster & Koll, 2002; Plott, 1982; Denzin & Lincoln, 1998). However, all studies were in one country. There may be factors unknown to the researchers that promoted the relevance of corporate associations in the first study. However its significance was then confirmed in a quantitative survey and an experiment. The samples researched in the quantitative phase were not large and we made use of convenience sampling. However we tested our data using bootstrap analysis in study 2 and the results show that identical conclusions would have been drawn based upon analyses of multiple sub-samples.

When regret is observed, such as in study 1, it is the emotional expression of regret that is visible. However, measuring regret takes more note of cognition. Regret is often referred to as a cognitively based emotion (Zeelenberg, 1999) and our measure of regret did not include items concerned with anger and disappointment, emotions that were observed in study 1. Future work might well consider measuring regret using such items. We focussed on corporate agreeableness as this emerged as the strongest aspect of the three corporate associations we tested in study 2. Other associations which we did not test may well be relevant to reducing regret. We tested the potential influence of CSR related activities in mitigating regret and on the ability of agreeableness to explain such an influence. Future work could usefully test whether other corporate actions or associations might provide similar or superior ways to influence regret.

Further work might also examine the relevance of corporate associations to shares that have been sold, either at a profit or loss, and secondly its relevance to any decision to purchase additional shares in the same company. Here we did not include a measure of actual behaviour in our quantitative studies and future work might do so.

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