A Qualitative and Quantitative Analysis of the Impact of Eco-Cultural Background on Investment Decision Making by Professional Fund Managers

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Degree of Doctor of Philosophy
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I, Haili Wu, confirm that the work presented in this thesis is my own. Where information has been derived from other sources, I confirm that this has been indicated in the thesis.

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Date: 25 October 2022

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ABSTRACT

Theories of cultural psychology, cultural finance, and sociology provided the foundation for a cross-cultural model of investment decision making. Using a combination of interviews and self-report questionnaires with fund managers from China and the West (72 interviews and 187 questionnaires respectively) it was found that five key investment behaviours differed between Chinese and Western fund managers. These included preference towards macroeconomic information, top-down stock selection, utilising contextual information in management evaluation, choice of average holding period, and holding time for a losing stock. It was further found that individualistic cultural values and holistic thinking, which in the research of cross-cultural behavioural differences have traditionally been observed as influential, were not mediating factors in investment decision making. In contrast, the economic context of a fund manager's domestic country was identified as an influential factor in the development of a mindset supportive of investment decision making. Similarly, cross-cultural differences in the use of intuition during the investment decision making process were found to relate more to contextual factors (i.e., Chinese or Western market) rather than individuals' cognitive style. On the other hand, personal cognitive style are expected to impact the association between one investment behavioural difference - the choice of average holding period, and investment returns. In other words, opting for a longer holding period is only detrimental in the case of fund managers who display a greater than average preference for holistic thinking, regardless of cultural background. These findings both support and extend the current financial literature and have implications for investment practice, investors' education, and policy making.

IMPACT STATEMENT

The theoretical foundations of my research embrace cultural psychology, finance, and sociology; thus, it is both inter-disciplinary and cross-cultural. In its examination of the extent to which cultural differences affect equity investment by fund managers from China and the West, my research serves to benefit the new yet fragmented research field of cultural finance. The results of this study have implications for the development of the asset management paradigm and for the encouragement and practice of fund management in the global economy. A clear understanding of the factors affecting equity investment decisions across cultures are important to policy makers (showing them what to encourage), to practitioners (what to do better), and to researchers (what to clarify). The findings are also relevant for anyone interested in improving general performance in a cross-cultural context.

Within the research field of cultural finance, this study is the first to collect individual level cultural value data and employ an integrated framework to consider the influence of cultural background on investment behaviours. To this end, the questionnaire instrument designed in this research has applicability to cultures other than China and the West. As part of a much larger scale survey, it has the potential to facilitate the development of a global investment behaviour index system enabling the creation of a global map illustrating the differences in investment behaviour around the world. An index of this type would provide valuable guidance to international investors in understanding different investment behaviours around the globe.

Given the rise of the international fund management industry, in its clarification and analysis of likely performance-enhancing cognitive techniques for the use of both practicing and potential fund managers, this research represents a move forward in the finance literature. In the context of investment activities, the introduction of a culture-related holistic thinking tendency, which the current research has confirmed and extended, offers a pathway towards the further analysis and understanding of high-performance investment behaviours. Furthermore, the findings that an investor’s cognitive mindset relates to the conditions of their domestic market confirm similar findings from

the realm of management studies. This raises the possibility of developing a coherent cognitive mindset amongst members of culturally diverse investment teams by fostering awareness of the common investment market context. Additionally, the phenomenon of intuition has been posited to help guide a wide range of critical decisions. This research is the first to identify different levels of intuitive cognitive process and has found that the actual use of intuition is not always synonymous with cognitive ability or intuitive preference.

Lastly, regarding investment performance, the discovery of this research that cross-cultural differences in investment behaviours do not matter as much as previously considered, suggests that when operating within a cross-cultural context, investors would do best to match their personal strengths with their behaviours, i.e., to identify their unique strengths and weaknesses, and behave in ways that both fully utilise and minimise them respectively. As a result, cultural upbringing should not factor as a barrier for performance success or failure in any market.

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LIST OF ABBREVIATIONS

ANCOVA	Analyses of Covariance
AUM	Assets Under Management
CSI	Cognitive Style Index
CSRC	China Securities Regulatory Commission
ETF	Exchange Traded Funds
HS	The Holism Scale
ICC	Intra-Class Correlation Coefficients
IPO	Initial Public Offering
LTF	Legal Theory of Finance
LTO	Long Term Orientation
MBTI	Myers-Briggs Type Indicator
NPL	Non-Performing Loans
PRC	People's Republic of China
QDII	Qualified Domestic Institutional Investors
QFII	Qualified Foreign Institutional Investors
SOE	State-Owned Enterprises
SSE	Shanghai Stock Exchange
SUV	Sport Utility Vehicle

CHAPTER 1: An Integrated Framework for Investigating the Influence of Eco-Cultural Factors on Investment Decision Making by Fund Managers

1.1 INTRODUCTION

Professional fund managers now dominate the ownership of equities in markets across modern economies (Aggarwal et al., 2011). It is suggested that in recent decades, the most significant development in equity markets has been the transformation of the dominant investor group from individuals to institutional investors (Coleman, 2015). With the increasing globalisation of equity investment, fund managers play a vital role in allocating money across different regions (Tuckett, 2011). Because fund managers' decisions are made within a cultural context, the potential for national cultural differences to affect equity investment decisions is an issue of importance. Traditionally, the UK and the US, together with Europe, represent the hallmark of developed markets, which have dominated the world stage since the initiation of the capital market (Chambers & Dimson, 2016). Gradually, however, many emerging markets are entering the global scene. China's stock market has become the second largest in the world, with a market capitalisation of $6 trillion by the end of 2014 (Carpenter et al., 2015). In recent years, China's stock markets have opened more widely to foreign investors, particularly from the West, who are perceived as a different cultural group. As the importance of the Chinese market increases and contact between Chinese and Western markets develops, the need to examine the differences in investment behaviours between Chinese and Western fund managers is becoming more urgent.

This thesis examines whether equity investment by fund managers from China and the West is affected by the extent of their cultural differences. In this research, I draw on recent theoretical developments as well as empirical data analysis to argue that fund managers across cultures do behave differently in several significant respects regarding equity decision making. I have also found that the multitude of apparently heterogeneous factors in national cultural values and personal factors that have, in the past, been thought to

affect the decision making of individuals in various countries, may, in reality, be insignificant in explaining the behavioural differences in equity investment decisions. Nevertheless, differences in personal factors across cultures have implications on investment returns, which, for the finance literature, could move forward the clarification and analysis of lively performance-enhancing techniques.

The theoretical foundations of my assertion are fourfold. First, earlier work has demonstrated that China and the West are very different in many aspects of culture, from languages, music, art, philosophy, and social and economic traditions (Needham, 1962; Reischauer & Fairbank, 1960). Second, decision making is influenced by culture (Peterson et al., 2012; Yates & de Oliveira, 2016). Third, culture has been found to impact major elements of financial decision making (Aggarwal & Goodell, 2009; Chui et al., 2010; Schmeling, 2009; Siegel et al., 2013). Finally, in a conceptual framework proposed by Busenitz and Lau (1996), social, cultural and personal factors have been related to cognition, and cognition to outcomes that include the business investment decision. These foundations enable the conceptualisation of a model of equity investment decision making that can be examined in a cross-cultural context.

Evidence of cultural influences on individual investment decision making could serve to heal the new yet fragmented field of cultural finance by providing a foundation for a more nuanced explanation of fund managers' investment decision making. Such an explanation would have implications for the development of the asset management paradigm and for the encouragement and practice of fund management in the global economy. A clear understanding of the factors affecting equity investment decisions across cultures would be important to policy makers (showing them what to encourage), to practitioners (what to do better), and to researchers (what to clarify).

In response to this need, the present research investigated individuals' equity investment decisions by examining real decision making cases in two cultural

regions: China and the West[2]. To accomplish this, I defined and examined a cross-cultural investment decision making model based on the Busenitz and Lau (1996) model, thereby responding to scholars' growing interest in individual decision making within the field of cultural finance. My study addresses three research questions:

(i) Do investment managers from different cultures make investment decisions differently?

(ii) To what extent can differences in economic context, cultural values and personal characteristics influence decision making?

(iii) How are these differences related to investment returns?

These questions, which I aimed to answer through semi-structured interviews and questionnaires with fund managers from China and the West, respectively, are important from the perspectives of theory building, management practice, investors' education and training, and policy making, as well as a broadening of interpretations of decision making beyond a reductionism that equates "decision making to analysis" (Mintzberg, 2003, p.38) without due consideration of cultural influences.

1.2 DEFINITION OF ECO-CULTURAL BACKGROUND

Despite the fact that most of us probably feel that we know what culture is, culture is a rather difficult concept to define formally. Certainly, there are many aspects to culture, such as music, food, religion, child-rearing patterns, ways of thinking, values and the like. It is also certain that no single concept can adequately capture all of what culture is. Williams (1983) used to remarkably describe culture as ''one of the two or three most complicated words in the English language" (p. 87). The American anthropologists, Kroeber and Kluckhohn critically reviewed concepts and definitions of culture and compiled a list of 164 different definitions (1952). For my purpose in investigating

[2] Please refer to section 1.2 *Definition of Eco-Cultural Background* regarding the rationales for grouping the Western countries together.

influences of cultural background on decision making, however, it was required to adopt an approach to understand culture, and a means of definition.

Fortunately, many scholars in anthropology and sociology as well as psychology have offered a number of interesting definitions of culture that can be employed to better understand cultural influences on investment decision making. Starting from the nineteenth century, Arnold (1869) defined culture with reference to special intellectual or artistic accomplishments, which means that only a few members of any social group possess culture. As the most influential and widely quoted definition of culture in anthropology, Tylor (1871/1924), on the other hand, defined culture as “that complex whole which includes knowledge, belief, art, morals, law, custom, and any other capabilities and habits acquired by man as a member of society” (p.1). Thus, he referred culture as a quality possessed by all people.

Whereas anthropologists and sociologists emphasised culture as a social construct, psychologists would instead focus on the psychological nature of culture. For example, decades later, Hofstede (1980) and Schwartz (1999) considered the central relevant of values as a constitutive element of culture, whereby values and the patterns of thinking, feeling and actions emanating from them, characterise a specific culture. Hofstede (1980) sees culture as “the collective programming of the mind which distinguishes the members of one group or category of people from another” (p.5).

Admittedly, most reviews of definitions of culture in the literature have largely dwelt on Western scholars, the so-called WEIRD group (the acronym for Western, Educated, Industrialized, Rich, and Democratic). This was coined by Henrich (2020) as a kind of consciousness-raising device to remind people that researchers use subjects in their experiments who are typically psychologically unusual, and that they couldn’t readily generalise from studying this one particular group.

In trying to understand cultural diversity, it is valuable to recognise that, in fact, people think quite differently about the definition of culture. Also, that how they think about culture has been shaped by the social and cultural environment.

This then leads to a consideration of the definition of culture by Chinese scholars.

In ancient China, Confucianism was the foundation of the state ideology. As a result, in classical Chinese thinking, culture was identified as a pattern of socialization, closely related to the Confucian concept of world order and its moral conviction of human existence. Culture also constituted an aesthetic and literary discourse centred on the perfection of humanity. It confirmed a civilizing mission. An etymological discussion of the two constitutive characters might be useful here to understand the Chinese idea of culture. In China, the idea of culture evolved from the meaning “to tattoo” and “to transform”. The modern Chinese counterparts for the word “culture” are “wen” (meaning “arts”) and “hua” (meaning “change”), and these appeared in Chinese writing in various forms as early as 3500 years ago. The Western idea of culture, as referring either to the intellectual side of a civilization or to the whole way of life of a society, could not be found in the classical Chinese concept of culture (Ping, 2002).

By 1915, when a fervent debate on East-West cultures broke out among Chinese young intellectuals in the face of Japanese encroachment on China, the Chinese idea of culture rested on the conceptual framework of Western sociology and anthropology. In a then well-known book, “Civilization and Philosophy of the Orient and the Occident”, author Liang Shuming identified culture as “the complex whole of a nation’s life”, including its religion, philosophy, science and art as well as its “social institutions, ethics, customs, political systems and economic relationship, and the manner of eating and housing” (Liang, 1921).

After 1949, when the Chinese Communist Party took power, there were two further stages in the development of the concept of culture in China (Ping, 2022). Between 1949 and 1979, the concept collapsed into political ideology and was merged with the teleological view of history and a unilinear sense of civilization. After 1979, the idea of culture was depoliticized and revolutionised in the Chinese context with the influx of contemporary Western social theories. It is pertinent to modernity, which encompasses the invention of humanism,

the secularization of society, and the emergence of technical reasoning. Ping (2002) suggests that the definition of culture in China after 1979 seems to have again come closer to the definition made by Chinese scholars in the early 20th century under the influence of the West.

In summary, the reviews of various definitions of culture have shown that there is no hard and fast rule about how to determine what a culture is or who belongs to that culture. In other words, all definitions are rather “fuzzy”. Each definition merely served a particular purpose and reflected the background of the person who defined it. For the purpose of carrying out this research, I was inclined to adopt the definition offered by cultural psychologists (such as Hofstede and Schwartz) and to consider culture as values and ways of thinking shared by a group of people, which are communicated from one generation to the next via language or some other means of communication.

Based on this narrower usage of the concept, I have therefore divided my samples on the basis of cultural groups, rather than nationality, i.e., the West versus China. Although the notion of a regional culture for the West may represent an oversimplification, the evidence and common acceptance in the literature of Western values as presenting an alternative to Chinese values suggests that shared values do exist with which to underpin a concept of regional culture. This approach is also seen in many cross-cultural comparison studies (e.g., McGrath & MacMillan, 1992). Cultural psychologists have provided strong support for a divide between the East and the West both theoretically and empirically. They have argued that East Asia, and China in particular, have been found to be essentially collectivist, contrasting with the more individualistic culture of the US, the UK, Western Europe, Canada and Australia (Hofstede, 1980; Hofstede & Hofstede, 1991; Markus & Kitayama, 1991; Oyserman et al., 2002; Triandis, 1995). Individualism/Collectivism is one of the value dimensions discovered by Hofstede in the early 1980s. This cultural value dimension is arguably the most famous. Some have suggested that the 1990s might be characterised as “the decade of individualism/collectivism” (Kagitcibasi & Berry, 1989). According to Hofstede (2001), individualism stands for “a society in which the ties between individuals

are loose – everybody is expected to look after him/herself and his/her immediate family only", while collectivism stands for "a society in which people from birth onwards are integrated into strong, cohesive in-groups, which throughout people's lifetime continue to protect them in exchange for unquestioning loyalty" (p.210).

In using this narrow definition of culture, I have explicitly excluded the economic aspect of culture as I would like to highlight economic background as a distinct feature. I have therefore employed the term "eco-cultural background" for the title of this thesis. Given that the subject matter is investment decision making, economic background is undoubtedly an important aspect. Interestingly, the groups of nations with different cultural systems are almost exactly the same as the groups of nations classified by their economic systems (Pryor, 2007). The correlation between cultural systems and economic systems does not, of course, solve the question of the direction of causality. In my sample, China and the West differed in both cultural and economic dimensions: the West not only represents a culture of individualism, but also a relatively more advanced and developed industrialised economic system. In contrast, China not only represents a culture of collectivism, but also a developing and state-dominant industrialised economic system.

Furthermore, the definition of culture I am employing also implies that culture is as much an individual construct as it is a macro construct. That is, to some extent, culture exists in each and every one of us individually as much as it exists as a global, social construct. Individual differences in culture can be observed among people to the degree by which they adopt and engage in the attitudes, values, beliefs, and behaviours that, by consensus, constitute their culture. If a person acts in accordance with these shared values or behaviours, then that culture resides in them; if a person does not share these values or behaviours, then they do not share that culture. Hofstede (2001) also believed that, "Cultures are not king-size individuals. They are wholes, and their internal logic cannot be understood in the terms used for the personality dynamics of individuals, and eco-logic differs from individual logic" (p.17).

Thus, in the current research, when analysing individual fund managers' cultural value preference, rather than predicting (or assuming) based on conventional thinking about East-West differences, I administered a survey to explore individual fund managers' endorsement of cultural values from the cultural surroundings. By so doing, I have accounted not only for the diversity in cultural values between East and West, but also for the possibility that individuals in a culture may interpret such values in different ways. I consider this to be one of the important contributions of the current research.

1.3 MY PERSONAL AND PROFESSIONAL BACKGROUND

According to Creswell (2014), it is essential to include a personal statement about the researcher's experience and the circumstances that encouraged curiosity about the area of interest. Shih and Shi (1995) also suggest that in the field of China studies, research does not only involve the object of study but, more importantly, the life experiences of the researcher. Furthermore, the cross-cultural nature of the current research presents its own unique set of issues concerning the role of the researcher. We cannot always separate ourselves from our own cultural background and biases in order to understand the behaviours of others. This type of resistance forms the basis of what is known as ethnocentrism – the interpretation of the behaviour of others through one's own cultural lens. In order to mitigate such bias, apart from developing a method of "culture-free" analysis that involves raw data as well as standardized rating analyses (Matsumoto, 1994), as utilised in the current research, I would also like to illustrate that my own life experience involves a constant quest to break my own biases and tendencies in order to understand the behaviours of others from different cultural backgrounds, i.e., a striving for growth in "maturity" and "interculturality" (Gu, 2009).

At the turn of the 21st century, largely going against Kipling's famous quote, "East is East, and West is West, and never the twain shall meet" (Kipling, 1899, p.1), as one of the so-called Chinese elites (Hall, 2018), I left my home country, China, and started my undergraduate studies at Cambridge University. The differences in culture and lifestyle came as a shock. The biggest challenge took place in the learning environment. The differences in cultural, social and

historical roots between the two societies resulted in a sudden uphill battle to fully and comfortably participate in class activities, particularly in the initial phase of my studies. In addition, the stress of employing an unfamiliar language further contributed to the intensity of my struggles. For me, this experience of “learning shock” is an important aspect of cultural shock. However, at the end of my studies, the director of studies wrote the following report: “Haili is a very able economist who writes highly analytical essays and can solve the necessary mathematical problems and undertake sophisticated econometric work too. In supervisions, she is always extremely well prepared and often takes the lead in discussions and debates.”

Following completion of degrees in the UK, I became an early career financier working in London’s financial district, a member of the so-called Chinese financial migration (Hall, 2018). The transition from educational attainment at a top UK university to employment in the financial services in London was anything but seamless due to a continued lack of ethnic diversity within the UK’s financial labour market (see British Bankers Association, 2015). Despite this, I immensely enjoyed these cross-cultural experiences, which presented a constant mental juxtaposition of two or more cultures. I appreciated every interaction with my Western colleagues on various issues in which I apprehended the difference in their perceptions and my own.

As an avid and long-time Taichi practitioner, I have always been fascinated by the ancient Chinese book, the “I Ching”, and the concept of “Yin Yang”. The key idea of Yin-Yang is the relativity of all things and the dependence of any quality on its opposite. For example, it is only because we recognise something to be beautiful that we have the notion of ugliness. Chinese people are therefore adept at holding conflicting concepts together. The concept of dominance, where one option will always be considered better than another, is less likely to play a role in Chinese decisions.

The Chinese orientation towards life was shaped by the mixture of three different philosophies: Taoism, Confucianism and Buddhism. These three, almost conflicting thinking systems, exist harmoniously in the minds of Chinese people. It is said that the Chinese are Confucianists when they are successful;

they become Taoists when they experience failure; and they tend to practice Buddhism when they are confronted with tragedy and death. Thus, very often my Western work colleagues would gasp, when in response to a technical problem, I would suggest: “there might be a middle way to solve it”.

It is said that the Chinese are highly intuitive people. This quality stems from, and is supported and sustained by, their ancient philosophical and religious attitudes as well as the idiographic symbolism of the Chinese language. In his book, “The Meeting of East and West”, Northrop (1946) concluded that,

> “The Chinese language gains a superlative degree of fluidity, a capacity to convey the unique particularity, nuance, and precisely refined richness of the specific, individual experience which probably no other mature language in the world today achieves. This shows itself also in the Chinese psychology. It is doubtful if any other people have such capacity as have the Chinese, having visited, lived with, and immediately experienced the culture, and psychological reactions of another people, to put themselves in the intuitive standpoint of that people. A Chinese student, after living a brief period upon the Left Bank in Paris, becomes often more French than the French.” (p.10)

Because of my interest in how culture influences financial decision making, I suspected that there might be measurable differences in the way that the Chinese and Westerners operate in this field. Through carrying out a series of pilot interviews, and exploring the relevant literature, I gradually came to the view that I could investigate whether differences are present in the way Chinese and Western fund managers make equity investment decisions i.e., so-called “culture free” activities according to standard Economics theory.

Investment decision making in the financial markets is of enormous importance. A crucial role of these markets is to channel investment capital towards certain activities and not towards others, and the investment decisions of fund managers to purchase or sell shares, government or corporate bonds, etc., are the most important aspect of this channelling role. Moreover, the amount of capital involved in these decisions is huge. For instance, a single asset management firm, BlackRock – admittedly the world’s largest − controls assets totalling $3.45 trillion, which Kolhatkar and Bhaktavatslam (2010) point

out is more than the GDP of Germany. The Chinese stock market is now highly influential and becoming increasingly important. It has therefore become crucial to understand the major forces behind its market movements, i.e., China's institutional investors as well as increasing numbers of foreign investors. The health and stability of the Chinese markets is vital for the global markets. In fact, to the present day, little is known about whether there are discernible empirical differences in the way Chinese and non-ethnic Chinese invest in the Chinese stock markets or, for that matter, in any of the global markets. This resulted in my posing the research questions which formed the basis of the current document and prompted a nearly one decade long-quest for answers.

1.4 THE CONCEPTUAL FRAMEWORK

The theoretical foundation of the current research mainly hinges on three areas: cultural psychology, cultural finance and sociology. Past research within the first two fields has demonstrated that the Chinese and Westerners differ in their cultural values and cognitive preferences, which can have a significant impact on decision making, in particular, financial decision making. A common drawback of these approaches is an over emphasis on cultural values and cognitive thinking at the expense of other equally important contextual factors, which could lead to biased conclusions. In consequence, the contextual nature of the current research urgently requires a more integrated and comprehensive framework. Reuter (2011) has suggested that future research on culture and finance might pragmatically draw on existing frameworks from adjacent disciplines: from management (with its emphasis on cross-cultural comparison), from economics and development-economics (with its special emphasis on trust or religion), or from economic sociology. Thus, interpolating and building on from Busenitz and Lau's (1996) model, I have designed an integrated framework for eco-cultural background in order to investigate the current research questions (see Figure 1).

Busenitz and Lau (1996) suggest that venture creation decision making is influenced by cognition, which itself is influenced by social context, cultural values, and personal variables. Within a social context, influenced by

sociology, Busenitz and Lau (1996) consider the impact of more macro factors, such as social mobility, network, ecological niche and market conditions. Traditionally, these factors are often emphasised as enhancers of organisational formation, however, these should not negate the role of the founder as an individual who perceives and interprets environmental information when making business decisions. As a result, in recent years, there has been a growing interest among anthropologists, cultural geographers and social historians in understanding financial markets and investors from a social context perspective (including Abolafia, 1996; Beunza & Stark, 2004; Hertz, 1998; Knorr-Cetina & Brugger, 2002; Lepinay, 2002; Miyazaki, 2007; O'Bar & Conley, 1992; Siu, 2008; Zaloom, 2006). In Hertz's study (1998), for example, she vividly illustrates the context within which the Shanghai stock market operated, including the integration and tension between China's older planned economy and a Western-style market economy - a tension between global markets and native/local experience (Hertz, 1998, pp.4-11). She has also documented in detail how investment decisions were reached by her field subjects in such a significantly different eco-cultural environment compared with European and American societies. Because the current research is about equity investment decision making, using the category of social context, I focus on one important contextual factor, i.e., economic context – to include capital markets and the involvement of state power within the economic system.

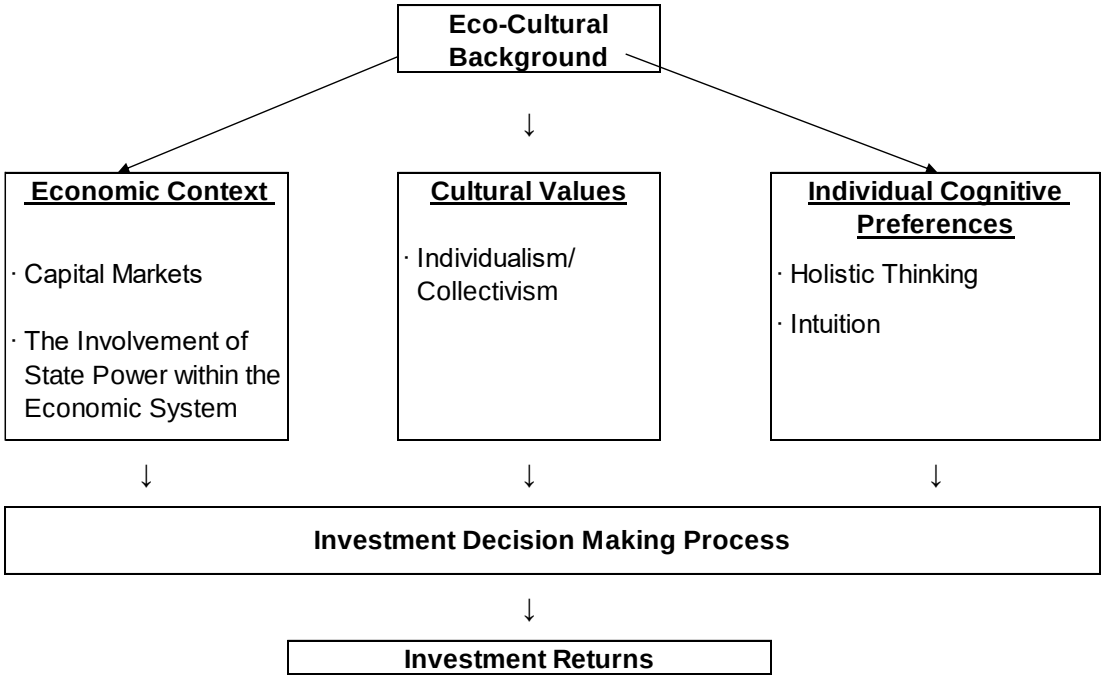
In Busenitz and Lau's (1996) model, examples of personal variables include a tolerance for risk-taking, internal locus of control, and achievement motivation. In the current research, I consider two cognitive characteristics (holistic thinking and intuition) as the key personal variables, because previous research has shown that these two cognitive preferences are important for individual decision making. (e.g., Choi et al., 2004; Nisbett et al., 2001; Peng & Nisbett, 1999)

Cultural values in Busenitz and Lau's (1996) model include all five value dimensions identified in Hofstede's research (1980, 2001): individualism/collectivism, uncertainty avoidance, masculinity versus

femininity, power distance, and time orientation. Since the current research is concerned with the effect of cultural differences on investment decision making between China and the West, the value dimension which could be considered to be the most important is individualism versus collectivism. However, when analysing the cultural value preference of individual fund managers, rather than predicting (or assuming) based on conventional thinking about East-West differences, I administered a survey questioning individual fund managers about their endorsement of cultural values from the cultural surroundings. In so doing, I have accounted not only for the diversity in cultural values between the cultural backgrounds of East and West, but also for the possibility that individuals in a culture may interpret such values in different ways.

In the current research, the integrated framework for investigating the influence of eco-cultural background on investment decision making considers culture, person, and situation, alongside between- and within-culture variation. This contrasts with a standard cultural finance approach that attends less to individual cognitive and value differences and instead concentrates on cultural prototype (see Chapter 2). Furthermore, it contrasts with a traditional finance approach that tries to reduce culture to individual differences by ignoring the effects of the cultural context altogether. Yet, it is essential to understand individual variation within the cultural context. Culture is important because it helps define psychological preferences and create meaningful clusters of behaviour according to a particular cultural logic. Individual differences are important, because individuals differ in the extent to which they internalise or endorse (or reject) a cultural norm. “Individuals are always in a cultural context, though they are not always of it” (for other empirical work in the non-finance domain that illustrates the usefulness of this integrated approach, see Leung & Cohen, 2011).

Figure 1: An Integrated Framework for the Influence of Eco-Cultural Background on Investment Decision Making



(Based on Busenitz & Lau, 1996)

It is worth mentioning that the investment decisions studied in the current research were representative of equity investments made by professional fund managers who were mainly utilising a method of fundamental analysis. This technique involves using a variety of information including current and past financial statements, and industry and macroeconomic data in order to identify the intrinsic value of a firm (Kothari, 2001). By directly recording and analysing this method it enables the decision making process to be determined according to how various information was analysed. This approach contrasts with more anecdotal procedures that rely on a small number of cases or processes. As far as the author is aware, this is the first research to analyse a representative sample of real-life investment decisions made by fund managers within a consistent and cross-cultural framework.

1.5 RESEARCH APPROACH

Every successful research project requires two elements: a meaningful research question and an appropriate way to answer that question (Morgan, 2014). Given the complex and cross-cultural nature of the question posed, a comprehensive research design was required. As a result, both qualitative and quantitative data collection and analysis were incorporated, spanning three studies.

It has been stated that a mixed-methods approach enables the researcher to gain a deeper understanding of the research study (Chenail, 2011). Denzin (1989) also suggests that this approach could overcome personal biases from single methodologies and lead to “in-depth understanding” (p.246), as alternative methods may “tap different domains of knowing” (Mathison, 1988, p.14) and encourage or allow expression of different facets of knowledge or experience (Bazeley, 2004). It can also improve the rigour and explanations of the results achieved (Bak, 2011). Moreover, given the particular nature of this research question, this combination of research methods is ideal, because it provides an especially sensitive and powerful way to make systematic cross-cultural comparisons in which qualitative approaches give a window onto cultural meaning and the phenomenological “feel” of social life, and quantitative methods facilitate hypothesis testing and sophisticated modelling of social and behavioural phenomena (Dabic, et al., 2015; Schrauf, 2016).

Study 1, which served to develop several hypotheses related to the current research (Hypotheses 1c to 1j), is a typical qualitative investigation. In total, 42 semi-structured interviews (with 28 Chinese and 14 Western investment fund managers) were conducted, recorded and transcribed for subsequent analysis. I was strongly of the view that research hypotheses regarding real-life investment processes could only be developed by asking fund managers for their first-hand accounts. This decision was based on two reasons: (i) the contextual nature of the problem requires sensitivity to the dynamics of investment decision making; (ii) I valued depth, complexity and roundness rather than a broader understanding of surface patterns. Despite the many notable achievements of previous research, there is a paucity of field data

gathered from fund managers' subjective accounts of the process of equity decision making. To redress this imbalance, I recognised a pressing need for further studies of a more inductive nature conducted in field settings. Such work has the potential to complement the extant body of hypothetico-deductive work, and to offer insights into the validity of the various concepts and theories that have been incorporated into cultural research from other fields of inquiry such as sociology and anthropology. My goal was pattern identification suggestive of a culture-specific conceptual framework as a precursor to a more general theory building, thereby opening up avenues for further studies. In addition to the development of research hypotheses, Study 1 also tested one research hypothesis relating to intuition in investment decision making (Hypotheses 1a & 1b), which was formulated based on the literature review (see Chapter 3).

Study 2 followed a similar approach to Study 1 and involved a further 30 participants (15 Chinese and 15 Western investment fund managers) in the same context using semi-structured questions in order to verify my initial research hypotheses (Hypotheses 1c to 1j). The key difference in Study 2 relates to data analysis, whereby qualitative interview data was coded into quantitative scales based on a self-created coding book, the so-called "quantizing qualitative data" method (Sandelowski et al., 2009). The items in the coding book were based on qualitative interviews from Study 1, that is, before the coding process (Brown, 2002). By transforming the interview data, the qualitative data could be analysed quantitatively. Such standard rating analysis is intended to mitigate biases stemming from the researcher's cultural background and furnishes the basis for a 'cultural-free' analysis (Matsumoto, 1994). In addition to the interview method, there was also a survey, based on the Cognitive Style Index, which was administered in Study 2 for testing a hypothesis relating to fund managers' general intuitive cognitive preference (Hypotheses 1a & 1b, see Chapter 3).

In Study 3, I conducted a self-designed survey among 187 Chinese and Western investment fund managers in order to verify the hypotheses supported in Study 2, as a triangulation (Halcomb & Andrew, 2005; Williamson,

2005) to the current research. Triangulation refers to the use of multiple methods or data sources to develop a comprehensive understanding of phenomena (Patton, 1999). A survey in Study 3 was used not only to strengthen the validity of the findings from Study 2 (Carter et al., 2014; Creswell, 2003; Denzin, 1989; Miles & Huberman, 1984; Roberts & Priest, 2006), but also to cover a broader range of measures in a more systematic fashion than would have been possible with qualitative data alone (Morgan, 2014). In the current research, results from this survey were also used to formally test for mediation and moderation effects, as suggested in research questions (ii) and (iii) (see p.19). Schrauf (2016) promotes the combination of both qualitative and quantitative approaches in cross-cultural studies as it capitalises on the strengths and overcomes the weaknesses of either approach used separately: “In cross-cultural comparisons, where social and cultural contexts are key factors, an approach that captures the range of macro- and micro-influences on human behaviour is unquestionably ideal” (p.7).

In contrast with Studies 1 and 2, Study 3 incorporated a different method of collecting data and sampling. Participants in the earlier two studies were required to have had some experience investing in the stocks of Chinese companies. For comparison purposes, during the interviews for these studies, both Chinese and Western participants were asked to describe their decision making process when investing in Chinese companies. The decisions reported were therefore representative of those made within a similar market context. In contrast, the criterion for previous investment experience in the Chinese markets was removed in the sampling for Study 3. The survey questions were designed to examine decisions investment fund managers had made regarding their majority portfolio holdings. Again, almost all the Chinese investors (with one exception) were exclusively investing in Chinese markets. In contrast, about 80% of Western participants were investing mainly in Western markets. Suffice to say, Study 3 sought to compare investment decision making within the context of the domestic market.

Thus, the participants in Studies 1 and 2, and those in Study 3 represented samples drawn from two different populations, because Study 3's sample were investing in either China or the West, while the sample in Studies 1 and 2 were required to have been investing in the Chinese market. This procedure allowed me to observe that what counted was not the host market context, but domestic market context. Intuitively, it makes sense that investment decision making differs when fund managers from different cultural backgrounds are primarily investing in their domestic market, because there are huge variations between fund managers' domestic market contexts, i.e., between emerging Chinese markets and developed Western markets. Nevertheless, if a similar pattern was also observed when fund managers from Chinese and Western groups were investing in the same market context, that is, the Chinese market, it would suggest a need for research into the influence of the prior domestic experience gained by a fund manager in their domestic market on their overseas adventure. As far as the author is aware, this is the first research to investigate the roles played by different market contexts in the finance domain, albeit indirectly.

1.6 ETHICAL CONSIDERATIONS

The information in this section applies to all three of the studies conducted as part of this thesis. Ethical approval was obtained from the UCL Research Ethics Committee (Ref: CEHP/2015/534). Fully informed consent was sought from fund managers to allow them to take part in the current research project. As part of this process, fund managers were presented with a participant information sheet outlining the rationales for the research, the purpose of the study and clarifying that their decision to participate (or not) would not disadvantage them in any significant way. Even after agreeing to take part, they could still withdraw at any time and without giving a reason. It was also made clear that selected excerpts from their interviews (fully anonymised) may be used in the writing up of the project. Fund managers who agreed to take part were then asked to sign a consent form (see Appendix A and K for a copy of the consent form from the interview study and the survey study, respectively). The UK's Data Protection Act, 1998, and UCL policies regarding data protection and confidentiality were strictly followed. In order to protect

confidentiality, any identifiable details provided by participants during their interviews were anonymised in the interview transcripts. Participants were also assigned with codes based on the sequence in which they were interviewed, such as Chinese 22 or Western 67.

1.7 OVERVIEW OF THE REMAINDER OF THE THESIS

The overall aim of this thesis is to examine whether investment decisions made by fund managers from China and the West are different (Research Question 1), and if so, are these differences due to economic context, cultural values or cognitive preferences (Research Question 2), and how are these differences related to investment returns? (Research Question 3). The relevant literature regarding how cultural values, cognitive thinking and economic context impact investment decision making is reviewed in Chapter 2. In addition, hypotheses regarding these three research questions are presented in Chapter 2. In terms of Research Question 1, there are ten hypotheses (1a – 1j). The analysis of past research on intuition initiated the first two hypotheses (1a and 1b). A further eight research hypotheses (1c – 1j) were developed based on the literature review and the empirical findings from Study 1. These hypotheses (1c – 1j) were categorised into two types of investment behaviours in the decision making process: non-state related and state related. In the current project, non-state related investment behaviours include attention to macroeconomic information (hypothesis 1c), preference for a top-down or bottom-up stock selection method (hypothesis 1d), choice of average holding period (hypothesis 1e), holding time for a losing stock (hypothesis 1f), attention to contextual information in management evaluation (hypothesis 1g), and the preciseness of the investment procedure (hypothesis 1h). State related investment behaviours, on the other hand, include attention to policy and political analysis (hypothesis 1i), as well as the attitude to the state (hypothesis 1j). Testing of these ten hypotheses (1a – 1j) relating to Research Question 1 will be discussed in Chapters 3, 4 and 5, respectively. In contrast, testing of the hypotheses relating to Research Questions 2 and 3 will be chiefly discussed in Chapter 6.

Chapter 3 illustrates the different ways intuition manifests itself in the investment fund management industry in China and the West (hypotheses 1a and 1b). These two hypotheses regarding intuition were formulated based on the literature review. Hence, in Study 1, direct interview questions related to intuition were posed to participants in order to investigate hypothesis 1a regarding the differences in using intuition by Chinese and Western investors in their investment decision making process. Hypothesis 1b regarding the differences in intuitive cognition was examined by a self-report cognitive style survey among participants in Study 2. It was found that although Chinese fund managers tended to use intuition more often than Western fund managers during the investment decision making process (hypothesis 1a was supported), Chinese fund managers were not more intuitive in their cognitive style than Western fund managers (hypothesis 1b was not supported). Due to the seemingly "contradictory" findings, hypotheses regarding intuition were not further included in Study 3 or the later examination of Research Questions 2 and 3.

Subsequently, Chapter 4 investigates non-state related hypotheses (hypotheses 1c to 1h) developed on the basis of Study 1. Study 2 discovered that hypotheses associated to non-state related investment behaviours were largely supported. Furthermore, these hypotheses were re-tested and re-supported in Study 3, and thus the validity of the findings from Study 2 was strengthened. As such, these hypotheses were included in the examination of Research Questions 2 and 3.

In turn, two state related hypotheses generated from Study 1 are investigated in Chapter 5 (hypotheses 1i and 1j). However, these hypotheses were not supported by the new interview data in Study 2. Thus, in their investment decision making, Chinese and Western fund managers were found not to differ significantly in their policy and political analysis, as well as in their attitude to the Chinese government. As such, these state-related hypotheses were not further included in Study 3 or the later examination of Research Questions 2 and 3.

Based on the findings from the previous three chapters, particularly Chapter 4, Chapter 6 examines the extent to which the empirically supported differences in investment behaviour across cultures (chiefly discussed in Chapter 4) were due to differences in individualistic and collectivistic cultural values, holistic thinking, and economic context (hypotheses 2a – 2e), and how are these differences related to investment returns (hypothesis 3 and hypotheses 4a – 4c).

Finally, Chapter 7 discusses the limitations and conclusions of the current research, and the implications for investment practice, investors' education, and policy making. With an emphasis on the findings of Chapters 3, 4 and 6, I will also present a number of ideas for future research.

CHAPTER 2: Literature Review and Development of Research Hypotheses

2.1 INFLUENCE OF CULTURAL VALUES ON INVESTMENT DECISION MAKING

In providing the foundation for this research, the general theories of cultural psychology and cultural finance will be chiefly reviewed in this chapter.

2.1.1 Cultural Psychology

According to cultural psychology, differences in the cultural values of individualism and collectivism have been proposed to underlie much cross-cultural variation in decision making between China and the West, such as the decision modes people use, their preferences, negotiation styles, creativity, and more (Yates & Potorowski, 2012). For example, Smith et al. (2011) found that nation-level collectivism can predict the relationship between managers' use of guidance sources in the workplace and their perceived effectiveness. Similarly, Hall (1976) argued that cultural individualism entails a preference for low-context information requiring a great deal of explication, as compared to high-context information that relies on extensive background knowledge and nonverbal cues.

Contrasts between individualism and collectivism in the West and China can also lead to differences in risk preferences. For example, Hsee and Weber (1999) have found that the Chinese tend to be more risk-seeking in situations that involve financial risk and less risk-seeking in situations that involve social risk. They argued that the observed cross-national difference in risk preference is rooted in long-standing cultural value differences between the East and West, because in an Eastern collectivist society (e.g., China), one's network of relationships and one's reliance on these relationships as a cushion for loss and as an essential component of future happiness may cause financial risks to seem less dire and social risks to seem crucial.

The differences in cultural values can also be reflected in thinking regarding the likelihood of alternatives, such as probabilistic thinking and probability judgement. Phillips and Wright (1977) found that when answering general

knowledge questions with two-choice alternative answers, Asian participants used fewer numerical probabilities than British participants and tended to provide more extreme scales (towards points at either ends of the scale: .5 and 1.0). Such differences are consistent with observations that probability theory did not develop in China,[3] and even today, decision-analytic techniques are not easily accepted (Pollock & Chen, 1986). Within the context of cultural values, one explanation for this difference is that the social orientation of the Chinese involves individuals retaining an integral role within their families throughout their lives (Yang, 1981) (in Hofstede's term: collectivism), which has been shown to be associated with less differentiated cognitive functioning. Differentiation is a formal property of an organismic system. A less differentiated system is in a relatively homogeneous state; thus, there is greater connectedness between self and other than in a more differentiated system (Witkin et al., 1979). This in turn has been shown to result in worse calibration, i.e., incorrect numerical labelling (Wright & Phillips, 1980).

In addition to individualism versus collectivism, other cultural value dimensions highlighted in Hofstede's research (1980, 2001) include uncertainty avoidance, masculinity versus femininity, and power distance. A further value dimension in Hofstede research (2005), long-term versus short-term - the so-called "Long Term Orientation" (LTO) - also shows a clear divide between China and the West. According to Hofstede (2001), "Long Term Orientation stands for the fostering of virtues oriented towards future rewards, in particular perseverance and thrift. It's opposite pole, Short Term Orientation, stands for the fostering of virtues related to the past and present, in particular, respect for tradition, preservation of 'face' and fulfilling social obligations" (p.359). Among the 38 countries whose LTO values were tested, China ranked first with a score of 118, followed by five East Asian countries influenced by Chinese culture including Hong Kong, Taiwan, Japan, Vietnam, and South Korea. In contrast, Western countries scored lower in LTO values. The results were as follows: the US - 29th, the UK - 25th, Germany - 31st, and France - 38th. Hofstede and Hofstede (2005) suggest that LTO influences business and economic

[3] The first translated book on probability theory was not published until 1896 (Lih & Siu, 2013).

decisions in three key areas: investment profits, savings decisions and investment choices. Long-term oriented cultures would favour delayed investment profits (e.g., 10 years from now), large savings and investment in real estate, whereas short-term oriented cultures would tend towards more regular annual profits, small savings and investment in mutual funds. However, these suggestions are yet to be empirically tested within the financial context.

It is worth mentioning that despite considerable empirical and theoretical advances concerning the influence of cultural values on decision making by cultural psychologists, the laboratory and field settings in which these various theories have been developed and tested are far from isomorphic with a finance context. The extent to which these results can be applied to real financial world decision making is debatable (Kuhberger et al., 2002). This issue promotes a turning of attention to cultural finance.

2.1.2 Cultural Finance

Although a relatively young and under-researched field of study, cultural finance is currently “gaining a large audience” (Reuter, 2011). It has proved enriching to both traditional and non-traditional finance research (e.g., behaviour finance) by adding a new cultural dimension to explanations of financial behaviours. Breuer and Quinten (2009) eloquently articulate an advantage of the cultural finance literature, stating, “although behavioural finance assumes bounded rationality to be valid for most countries, cultural finance implicitly supports the diverging relevance of certain behavioural patterns between countries, and thus rationality defects” (p. 14).

Significant works have only started to appear in the last two decades. Between 1969 and 2016 only 101 research papers touched upon topics relevant to cultural finance (Nadler & Breuer, 2019). Within these papers, more than 30 were based on studies by cultural psychologists who looked at country-level cultural orientations such as individualism and collectivism. These works incorporate the so-called “dimensionalism approach” (Reuter, 2011), which has as its focus cross-national comparisons. The main tool is the development of numerical scales to distinguish the culture of a nation, based on synthetic and abstract “dimensions”. Known as “national cultural indices”, these include

individualism versus collectivism, uncertainty avoidance, power distance, and long-term versus short-term. It is important to note that the key underlying mechanisms operating within a culture are “values”, which have a motivational grip on individual and collective behaviours (Hofstede, 2001, p.11; Oyserman, 2002). De Jong (2013) re-emphasises how other cultural dimensions, such as “rituals”, “heroes” and “symbols”, all rest essentially on the same core dimension: that of values. For example, Chui et al. (2010) propose a focus on individualism as a mediator for a number of specific, seemingly related and well-identified behavioural biases.

Within cultural finance, dimensionalism has achieved great empirical successes. Existing research links variations in national cultural values to the structure of financial systems (Aggarwal & Goodell, 2009), international investment (Siegel et al., 2013), herd-like trading behaviours (Schmeling, 2009), momentum profit strategies (Chui et al., 2010), dividend payout patterns (Fidrmuc & Jacob, 2010), and corporate governance (Breuer & Salzmann, 2008). For example, Chui et al. (2010) note that momentum profit strategies are strong in the US stock markets and weak in many Asian countries. They hypothesise that the ability to derive momentum profits may be partly driven by the individual mechanisms of over-confidence and self-attribution biases, which in turn are both fostered by (and positively associated with) the degree of individualism in a given country. Extending this result, Schmeling (2009) investigated the tendency of national stock markets to be more or less prone to “over-reaction and herd-like behaviours”. He shows how these behaviours may be related not only to individualism, but also to its opposite - collectivism, as well as to uncertainty avoidance. While individualism triggers individual behaviours such as over-confidence and self-attribution, collectivism triggers collective “herd-like” behaviours.

Despite its early success, dimensionalism suffers from many weaknesses. First, from the so-called “illusion of linearity” or “assumption of homogeneity”, as highlighted by many scholars (Karolyi, 2016; Nadler & Breuer, 2019; Shenkar, 2001). Studies investigating individual investment decision making (e.g., Chui et al., 2010; Grinblatt & Keloharju, 2001) have used cultural value

scores derived from country level studies in their analysis of individual investment behaviours. This inevitably ignores individual differences within cultures. Hofstede (2001) clearly states that his cultural dimensions should not be used for purposes other than country level studies. However, “analysis shows that this is frequently violated” (Nadler & Breuer, 2019).

In addition, these studies often adopted the quantitative method of building a regression framework with national level cultural value dimensions as dependent variables. As Karolyi (2016) points out, “That new research initiatives on culture and cultural distance in finance is so dependent on these data is concerning, as our inferences hang in the balance.” Leung et al. (2005) and Earley (2006) also emphasise that the dimensionalism approach should be supplemented by other methods in the future. They argue that much of the previous research has adopted a simplistic view of culture, which tends to examine the static influence of a few cultural elements in isolation from other cultural elements and contextual variables. They illustrate that “Hofstede’s dimensions fall into this category” (Leung et al., 2005).

Thus, in the current research, when analysing individual fund managers’ cultural value preference, rather than predicting (or assuming) based on conventional thinking about East-West differences, I administered a survey to explore individual fund managers’ endorsement of cultural values from the cultural surroundings. By so doing, I have accounted not only for the diversity in cultural values between East and West, but also for the possibility that individuals in a culture may interpret such values in different ways. In addition, methodologically, I aimed to conduct my investigation with fund managers within a naturalistic setting via semi-structured interviews. In this way, I sought to solicit insider viewpoints to determine the co-influence of key cultural elements and economic contextual factors.

2.2 INFLUENCE OF PERSONAL COGNITION ON INVESTMENT DECISION MAKING

According to previous cross-cultural research (e.g., Choi et al., 2004; Nisbett et al., 2001; Peng & Nisbett, 1999), the cognitive preference of holistic thinking and intuitive thinking were found to be the two most important cognitive

characteristics impacting decision making. I will thus review the influence of these two factors in detail.

2.2.1 Holistic Thinking Style

Besides cultural values, cognitive preference has often been viewed as a popular framework with which to study differences in cultural decision making (Choi et al., 2004). Nisbett and his colleagues have offered a theoretical model of analytic-holistic style, which includes four constructs: attention mode, causality, perception of change, and contradiction. Holistic thinking is a cognitive style frequently associated with Chinese cultures. It is characterised by attention to context, an emphasis on relationships between entities, belief that the world is in constant flux, and tolerance for apparent contradiction (Masuda & Nisbett, 2001; Nisbett et al., 2001; Peng & Nisbett, 1999). In contrast, analytic thinking is frequently associated with Western cultures, and it is characterised by a focus on the main object, a category-based (vs. relationship-based) view of objects, belief that the world is stable and predictable, and adherence to the rules of formal logic such as non-contradiction. Cognitive style has been theoretically linked to social orientation, such that individualists are relatively analytic, and collectivists are relatively holistic (Varnum et al., 2010).

Cognitive style has been used to explain various aspects of decision making, such as what type of information people attend to, and how people interpret events. For example, Choi, et al. (2003) found that before making a final decision, East Asians tended to consider a larger amount of information than Westerners. Morris and Peng (1994) observed a tendency toward situation-centred explanations of behaviour among the Chinese (situational attribution), whereas Americans were more likely to adopt person-centred explanations of behaviour (dispositional attribution). The differences in interpreting behaviours have been consistently observed in cultural artefacts, such as newspapers, as well as in survey and experimental culture-priming studies (Lee et al., 1996; Morris & Peng, 1994; Peng & Knowles, 2003).

Holistic preference has also been shown to shape confidence in one's decision. Researchers have identified greater overconfidence in Asians

(except the Japanese) than in Americans and Europeans (Yates et al., 1997; Yates et al., 1998). Asian overconfidence is all the more surprising given that the need to self-enhance appears to be absent or attenuated in East Asian cultures (Heine & Hamamura, 2007). It should be noted that the cross-cultural psychology literature discusses two types of overconfidence, overconfidence about general knowledge and peer comparison overconfidence (e.g., Yates et al., 2002). In a study including subjects from Taiwan, Japan, Singapore, India, and the United States, Lee et al. (1995) find that overconfidence about general knowledge is stronger in Taiwan, Singapore, and India and is weaker in Japan and the United States, but peer-comparison overconfidence is stronger in the United States than in other countries. Choi and Nisbett (2000) have illustrated that one feature of holistic thought is the belief that everything in the world is somehow connected to everything else. From this perspective, events that are observed to have occurred can easily be rationalised as having been inevitable, because of the chain of connections revealed after the event. This, in turn, could lead to overconfidence about general knowledge within groups that think holistically.

Furthermore, because East Asians believe that elements are interconnected with one another, they tend to expect constant change. Thus, when considering an initial state, the Chinese are more likely to make predictions based on change as a factor. For example, when events were changing in a particular direction, the Chinese were more likely than Americans to predict change in the direction of change. Moreover, for patterns with changing slopes, the Chinese predicted greater change in the way slopes changed, in comparison to Americans (Ji et al., 2001). As an attempt to test these theories in a finance context, Ji et al. (2008) conducted laboratory research among Chinese and Canadian university students. They found that under hypothetical scenarios, the Chinese participants were more willing to buy and less willing to sell failing stock than the Canadian students. The explanation given for this difference was that, influenced by cultural traditions, the Chinese participants were able to predict the likelihood of further changes, and were more likely to anticipate a reverse in the trend towards failing stocks, resulting in a greater inclination to buy.

Notwithstanding many notable achievements, it could be argued that the laboratory and field settings in which the majority of theories have been developed and tested are far removed from the context of real-life finance. Despite one published study on the influence of cognitive preference on stock market decisions (Ji et al., 2008), the research to date does not offer an extensive evidence-based account of the ways in which differences in holistic preference manifest themselves in the decision making processes of fund managers in the social settings of business organisations in general, and in finance in particular. Furthermore, there are questions about whether samples of college students in these cross-cultural studies are generalisable to fund managers within each culture in the current research context.

It was to these issues that I turned my attention in a qualitative study using in-depth, semi-structured interviews with fund managers from China and the West; my aim was to examine the effect of investors' cultural background on equity market decisions in the context of their job roles and the financial social setting.

2.2.2 Intuitive Thinking Style: Hypotheses 1A – 1B [4]

The phenomenon of intuition has been posited to help guide a wide range of critical decisions involving high complexity and short-term time horizons, such as corporate planning, stock analysis, and performance appraisal (Hayashi, 2001; Isenberg, 1984; Shirley & Langan-Fox, 1996). Authors, such as Hayward and Preston (1998), argue that linear rational models do not perform satisfactorily for businesses operating within a climate of rising pressure and ambiguity (Andersen, 2000; Kuo, 1998). In an attempt to come to grips with a financial world characterised by dynamic change and increasing uncertainty, fund managers today are also searching for new methods of decision making, such as intuition. Although there has been great interest in the role intuition may play in business and management in recent years, there is little research available on the different ways intuition is used by professional investors from

[4] This section is based on the author's published article: Wu, H. (2022). Intuition in Investment Decision-Making Across Cultures. Journal of Behavioral Finance, 23(1), 106-122. (See Appendix E)

a cultural and cross-cultural perspective. In the context of decision making, it is little known whether a culture-specific definition of intuition exists. However, due to the increased internationalisation of financial markets, understanding the mentality of other cultures - including factors such as intuition - has become a priority for investment practitioners and academicians. Therefore, intuitive thinking style, considered as a key individual cognitive tendency, will be carefully examined in the current research.

2.2.2.1 Definition of Intuition

The definition of intuition has triggered many debates because the term is used in myriad settings and situations in which its meaning is altered. As Epstein (2008) noted, "Intuition has been given so many different meanings...that it makes one wonder whether the term has any meaning at all" (p.23). Haidt and Kesebir (2011) have summarised a few major categories of research on this subject, including treating intuition as a personality variable, a behavioural variable, and a moral or religious factor.

Moreover, the definition of intuition can often mean different things among people from different cultural backgrounds. For example, for Western philosophers, intuition was often perceived as the most pure and immediate way of knowing (Osbeck, 2001; Wild, 1938). It represented access to divine or inborn knowledge. In the East, many Buddhists viewed intuition as a means of obtaining penetrating knowledge and as a "gateway to a wider and richer world" (Guenther, 1958, p.26). To date, little is known about the definition of intuition as it is used in financial decision making by both Chinese and Western investment fund managers and whether significant differences in intuitive thinking between these groups can be observed. One of the key aims of the present research is to bring greater clarity to this currently ambiguous area.

In the current literature, there are two broad categories, which are widely recognised to define intuition in relation to decision-making (Boucouvalas, 1997; Shirley & Langan-Fox, 1996; Sinclair & Ashkanasy, 2005). The first category is represented by research that stresses the importance of sensory and affective elements in the intuitive process (e.g., Bastick, 1982; Dane & Pratt, 2007; Epstein, 1998; Parikh et al., 1994; Petitmengin-Peugeot, 1999). In

the second category, researchers view intuition as an experience-based phenomenon that draws on tacit knowledge accumulated through experience and retrieved through pattern recognition (e.g., Behling & Eckel, 1991; Brockman & Anthony, 1998; Isenberg, 1984; Klein, 1998; Simon, 1987).

In addition, the non-linear, non-sequential nature of holistic processing is generally implied in most definitions of intuition found in the literature to date. For example, in the Jungian concept of the “big picture” or seeing things in a broader context (Andersen, 2000; Singer, 1994), and the contemporary strategic perspective that emphasises directness of knowing (see Behling & Eckel, 1991; Brockman & Anthony, 1998) or the global ability to synthesise “unconnected memory fragments into a new information structure” (Mintzberg et al., 1998, p.164). Furthermore, apart from holistic processing, Sinclair and Ashkanasy (2005) have discerned a further two commonalities surrounding the different definitions of intuition used in decision making: (i) that intuitive events originate beyond consciousness, and (ii) that intuitive perceptions are frequently accompanied by emotion.

2.2.2.2 Past Research on Cross-Cultural Differences in the Use of Intuition

In recent years, significant developments have been made in understanding the psychological and neuro-biological mechanisms that form the basis of human intuition. One such advance can be recognised in dual-process theories (Epstein, 2008; Epstein et al., 1996). The key emphasis of these theories is that information is processed by means of two parallel interacting systems: a rational system (intentional, analytic, primarily verbal and relatively emotion-free; information is encoded in abstract symbols) and an intuitive system (automatic, holistic, primarily non-verbal, associated with emotion and feeling; information is encoded in concrete forms).

In the field of cultural psychology, researchers have found that preference towards intuitive and analytical thinking differs due to cultural background. Chinese and Korean participants were seen to rely on intuitive strategies more than European Americans (Norenzayan et al., 2002), suggesting that East Asians are more holistic and intuitive in their thinking than Westerners, who

tend to set aside intuition in favour of formal reasoning. Not only are there cultural differences in terms of tendencies to engage in intuitive and analytical reasoning, Buchtel and Norenzayan (2008) also found that cultural differences exist in the perceived value of analytical versus intuitive reasoning. Relative to Western participants, East Asians rated intuitive reasoning as more important and "reasonable" than analytic reasoning. Similar cognitive differences were also found in the realm of human attention: East Asians preferring intuitive thinking exhibit a more holistic, field-dependent attention mode, while Westerners preferring formal reasoning exhibit a more focused analytic, field-independent attention mode (Abel & Hsu, 1949; Ji et al., 2000; Masuda & Nisbett, 2001; Park et al., 1999).

Nevertheless, there is a growing body of empirical evidence which seems to contradict the cognitive research carried out by cultural psychologists. For example, a comparison of Chinese and American adult students in higher education (Huang & Sisco, 1994) revealed that there was no difference in their analytical thinking styles. In research exploring cross-cultural variations in cognitive style, Allinson and Hayes (2000) discovered that British corporate managers were more intuitive than Singaporean managers. Similarly, Abramson and colleagues found that Canadian MBA students scored higher in the "intuiting" dimension of cognitive thinking style than their Japanese counterparts (Abramson et al., 1993). Contrary to what might be expected from the "intuitive East", in a later extension of this study, Japanese participants were discovered to be slower and more careful decision makers than Canadians or an equivalent group of Americans (Abramson et al., 1996).

However, in its claim to contradict the cognitive research of cultural psychologists, this empirical evidence can be perceived to be rather weak. First, in Allinson and Hayes's paper (2000), Singaporeans are treated as similar to the Chinese or Japanese. However, as a nation of immigrants, Singaporean culture is described as a mixture of mainly British, Chinese, Malay and Indian cultures. Thus, Singaporeans are more bicultural compared to the Chinese or Japanese (Huff et al., 2017). Furthermore, previous research on holistic or intuitive reasoning by cultural psychologists (for example,

Norenzayan et al., 2002) often applied to East Asians but not to Singaporeans. Secondly, although “intuitive” and “analytical” thinking was mentioned across all these papers, the terms were taken to mean different things, and were measured in very different ways by the researchers. For example, the paper by Norenzayan et al. (2002) was based on experiments, while that of Abramson et al. (1993) was based on a cognitive style test. The cognitive style test is a typical self-report survey, aiming at model testing of participants’ inclination towards an abstract experience, while laboratory controlled experiments were intended to investigate occurrences of intuition (Woźniak, 2006). Finally, despite debates regarding cross-cultural cognitive thinking differences, researchers appear to agree that Chinese and Western participants were generally different in intuitive thinking, with more evidence supporting higher intuitive preference among Chinese participants.

However, as previously mentioned, it is important to note that the laboratory or field settings of these earlier cross-cultural studies on intuition are far from isomorphic with an investment market setting. These studies do not offer a substantial empirical basis for the financial domain itself, particularly because there is a paucity of field data sourced from subjective accounts of the phenomenon of intuition. Noticing the dearth of evidenced-based accounts of the use of intuitive judgement in the decision making of professional investors across cultures, I identified a pressing need for further work of a more inductive nature within this field. Thus, with the aim of generating insights into the perceptions of fund managers regarding intuition-in-use, I focused on utilising qualitative methods by carrying out a series of in-depth, face-to-face semi-structured interviews. For example, participants in Study 1 were asked direct questions relating to their use of intuition and intuitive decision making during the investment process.

Furthermore, it is worth noting that conceptually, the actual use of intuition is not always synonymous with cognitive ability or intuitive preference. Sinclair and Ashkanasy (2005) criticised the previous literature on intuition stating that, “Many studies failed to identify clearly whether they focused on intuitive predisposition, preference, ability, or actual use” (p.359). It is therefore

important to examine the intuitive process in its entirety, from the predisposition or the ability, to the actual use. Leonard et al. (1999) have further clarified the differences in intuitive cognitive style dimensions operating at different levels of cognitive processing. The first level was pure cognitive style, which relates to the way individuals process information. The second was decision making style, which indicates individual preferences for various complex decision processes. The third level was decision making behaviour style, which reflects the way individuals approach a decision situation.

The first level, cognitive style, has historically referred to a psychological dimension representing consistencies in an individual's manner of cognitive functioning, particularly with respect to acquiring and processing information (Ausburn & Ausburn, 1978). For example, Messick defined cognitive style as "consistent individual differences in preferred ways of organising and processing information and experience" (1976, p.5). Similarly, Tennant (1988) defined it as, "An individual's characteristic and consistent approach to organising and processing information". Therefore, individual differences in cognitive style are found to be stable over time and across tasks (Witkin et al., 1977). In contrast, the use of intuition in second and third level cognitive processing appears to be dynamic, and contingent on a range of specific triggers (Sinclair & Ashkanasy, 2005). To date, no study has distinguished the differences between intuitive predisposition and actual use of intuition in decision making by professional investors from different cultural backgrounds. Therefore, in my research project, I have not only adopted an interview method to examine the actual use of intuition in fund managers' daily practice, i.e., the third level of cognitive processing, I have also utilised a self-report cognitive style test (Allinson & Hayes, 1996, 2012) to gauge the pure cognitive style of fund managers devoid of the financial decision making context, i.e., the first level of cognitive processing. The survey was simultaneously administered to participants who were interviewed for Study 2.

On the basis of the information about cross-cultural differences in the use of intuition, I developed two hypotheses relating to intuition with which to investigate two different levels of intuitive cognitive process respectively.

1a: Chinese fund managers tend to use intuition more than Western fund managers in their investment decision making process.

1b: Chinese fund managers are generally more intuitive in their cognitive style than Western fund managers.

In the context of investment behaviours, these initial two hypotheses (1a – 1b) contrasted with later hypotheses (1c – 1j) (see section 2.4), as they mainly derived from the literature review on intuition; thus, they were established prior to the empirical investigations undertaken in Study 1. Hypotheses 1a – 1b are primarily investigated in Chapter 3.

2.3 INFLUENCE OF ECONOMIC CONTEXT ON INVESTMENT DECISION MAKING

Drawing from the work of sociology, Busenitz and Lau (1996) argued that economic context is one of the key factors in understanding business decision making. Similarly, in terms of financial markets, there is growing interest among anthropologists, cultural geographers and social historians to understand financial decision making from an economic context perspective. Nevertheless, the literature is so far rather limited. Within this small range of studies (e.g., Abolafia, 1996; Beunza & Stark, 2004; Hertz, 1998; Knorr-Cetina & Brugger, 2002; Lepinay, 2002; Miyazaki, 2007; O'Bar & Conley, 1992; Siu, 2008; Zaloom, 2006), the majority focus on Western capital markets, with only two works (Hertz, 1998; Siu, 2008) touching upon Chinese markets.

There is also a dearth of theories and empirical data about the role of economic context within the traditional finance literature. This is all the more surprising given the huge importance this topic has enjoyed in business and management studies (Leff, 1979). Hofstede (2001) used to famously state that "the finance function has been the last stronghold in business administration to escape cross-cultural analysis" (p.385). It could be similarly stated that it has also escaped economic context analysis. Therefore, in light of the current research setting, I will utilise the work of sociology and management studies to analyse economic context. This will include two aspects: the capital markets

context and state power in the economic system, as these are arguably two key areas that set China and the West apart in relation to economic context.

Compared to those in the West, China's capital markets are relatively young and immature, which has often been considered a key reason for the volatile trading activities of Chinse investors (Kang et al., 2002). The modern format of securities and securities markets in China only came into being in the nineteenth century following China's humiliating defeat to Britain in the Opium Wars (1839-1842). The first stock exchanges were established by the Chinese government in Beijing and Shanghai in 1918 and 1919, respectively (Zhu et al., 2008). However, the Shanghai Stock Exchange (SSE) was closed temporarily in the 1940s due to the Japanese invasion of China, and then came to a complete halt in the early 1950s after the Communist Party came to power (Thomas, 2001; Chen, 2006). It was reopened again in 1990 during a period of diplomatic isolation from the West in the wake of the Tiananmen Square protests of 1989. As noted by Hertz (1998), "The hegemonic pressures of global capitalism have helped to bring China to experiment with one of its central institutions, markets in securities" (p.11-12).

Because China's stock exchanges have been part of a government-led experiment from the start, the role of the state inevitably becomes a further key economic context for investors to apprehend. As Chen highlights (2006), "The People's Republic of China (PRC) was effectively the stock issuer, controlling shareholder, legislature/rule-maker and law enforcer" (p.23). Initially, almost all public listed companies were transformed from State-Owned Enterprises (SOE) with the state becoming the biggest shareholder (Boyreau-Debray & Wei, 2005). In the current day, this can be further evidenced by the dominance of state-run banks in the country's domestic equity markets. According to the 2014 statistics annual of the SSE, there were four state-run banks among the list of top 10 shares by market capitalisation; their total value accounted for 17.31% of the total equity market capitalisation.

State involvement is not only a factor in relation to company ownership. The state has a presence in almost all four market sectors as identified by Siu (2008), including regulatory bodies, exchanges, brokerage firms, and

investors. For example, between 2006 and 2010, among the total number of brokerage firms in China, state-owned firms held steadily at 79%, due to the state having over 50% control of the shares of these companies (Wang & Song, 2012). As recently as 2015, during the stock crash in China, brokerage firms received state orders to continue to buy shares and support the markets. Although their efforts ultimately failed, the fact that these firms acted to enforce state policies rather than to maximise their investments illustrates how, to some extent, the Chinese markets remain part of a complex hierarchy of administrative structures and are thus remarkably different from those in the West.

Given the significant role the government plays in the country's market system, Hertz (1998) has argued that in their investment decision making, Chinese investors were not only attentive to the role of the state, they were, in fact, "primarily" subject to "the fetishization of the state" (p. 23). Admittedly, having been carried out almost thirty years ago, Hertz's study is noticeably outdated. Since then, the Chinese financial markets have undergone a dramatic transformation, including the emergence of Chinese fund management as a professional field. In light of this, the current research can be seen to be even more necessary.

From a theoretical perspective, the Legal Theory of Finance (LTF) put forward by Pistor (2013) highlights the important influence of the state on financial markets in general, irrespective of cultural or social origins. Pistor (2013) argues that hybridity, hierarchy, and state power are essential features of modern financial governance whatever the political regime. LTF starts with the premise that the modern financial system is characterised by the fundamental features of uncertainty, liquidity constraints and potential instability. Financial markets are characterised as rule-bound systems that are comprised of a complex web of interlocking commitments and contractual obligations that coordinate and discipline the interests and behaviours of various market entities over time. Financial markets are legal constructions built upon and intertwined with the governance institutions that generate and enforce relevant laws, regulations, policies, and contracts. It holds that financial markets occupy

“an essentially hybrid place between state and market, public and private” (Pistor, 2013, p. 315). The key issue therefore is not debating state versus market, public versus private, but investigating how particular forms of hybrid governance emanate from different institutional structures, and how they shape, influence and interact with investors’ financial decision making. Using the LTF framework, investors in all modern financial markets, whether belonging to China or the West, will have to closely heed state power in their investment analysis.

Finally, it is important to consider the different roles played by domestic (i.e., Chinese markets for Chinese managers and Western markets for Western managers) and foreign (i.e., Chinese markets for Western managers) market contexts in the decision making process. Chinese fund managers in the current research were mainly faced with the domestic economic context, as Chinese fund managers primarily invested in Chinese domestic capital markets. Similarly, Western fund managers in the survey study of Study 3 contended with their domestic economic context, as those Western fund managers mainly invested in Western capital markets. In contrast, Western fund managers in the interview studies of Studies 1 and 2 needed to deal with two economic contexts: domestic economic context and foreign economic context, as these Western fund managers were asked to describe their decisions when investing in Chinese stocks. These Western fund managers were able to invest in Chinese markets under the scheme called the Qualified Foreign Institutional Investors (QFIIs) Programme established by China’s securities regulator, the China Securities Regulatory Commission (CSRC) in 2002.

Although the key aim of the current research is to compare differences in investment behaviours between Chinese and Western fund managers, the differences in design (e.g., the type of questions and sampling methods used) between the two interview-based studies (Studies 1 and 2) and the survey-based study (Study 3) resulted in new findings related to the domestic and foreign market context. In Studies 1 and 2, all the Western participants had experience of investing in the Chinese markets, and the interview questions were designed to investigate this experience. In contrast, in Study 3, it was not

a requirement for Western fund managers to have overseas investment experience, and the questions posed were mainly related to their experience in their own domestic market. Such research design provided an examination of investment behaviours under the influences of different market contexts: domestic and foreign market context. As far as the author is aware, this is the first research to investigate the role of different market contexts in the finance domain, albeit indirectly.

Ideally, it would be better to include more Chinese participants who invested in Western capital markets, in order for this type of comparison analysis to be less biased. However, in practice, there were far more Western fund managers investing in Chinese markets than Chinese managers investing in Western markets during the data collection period of the current research. Chinese investors were only able to start investing in Western markets from 2006 when China's CSRC launched the qualified domestic institutional investor (QDII) programme. This type of programme allows Chinese institutional investors who meet certain criterions to invest a specific quota amount in foreign markets securities. It would take some time for the Chinese fund managers to understand overseas markets and then to go abroad. Only a year later, in the autumn of 2007, were a few initial QDII funds able to be set up. Thus, Chinese fund managers were able to venture abroad a few years later than their Western fund counterparts who entered the Chinese markets. The timing also turned out to be unfortunate, as the 2008-2009 global financial crisis erupted, resulting in large losses for those Chinese investors who had dared to be among the first to go global. That bad experience as well as the abundance of knowledge required by Chinese fund managers to successfully invest in foreign capital markets hurt the QDII programme (Yao & Wang, 2013). As a result, there was hardly any interest among high-net-worth Chinese investors in investing abroad and the approved QDII quotas had rarely been used fully by Chinese institutional investors during the data collection period of the current research (Chen et al., 2015). Therefore, although there was a limitation in data sampling in the current research (i.e., a lack of Chinese fund managers investing in Western markets for an all-round-comparison purpose), such

limitation simply reflected the situation in cross-border investment and was thus hard, if not impossible, to overcome.

Unsurprisingly, there is also a dearth of theories and empirical data about the role of different economic context within the traditional finance literature. I thus utilised the work of management studies to draw some lessons. According to this field, the domestic market context plays a dominant role in managers' overseas investment experiences - the so-called home market inertia effect. Researchers found that in complex and ambiguous situations, executives base their decisions, in part, on the cognitive frameworks that they distil from prior experiences (Cyert & March, 1963; Nadkarni & Barr, 2008; Walsh, 1995). Due to an initial lack of international experience, top managers are likely to make sense of complex international stimuli based on their domestic experience (Carpenter & Sanders, 2004). This domestic mindset is likely to guide their early international activities and outcomes by either allowing them to effectively leverage domestic knowledge in the new market or by creating a strong sense of inertia that can inhibit their understanding of the foreign setting (Anderson, 1993; Nadkarni & Perez, 2007; Vermeulen & Barkema, 2001). In a similar manner, domestic economic context might play a significant role in fund managers' investment decision making, which is a specific aspect investigated by Research Question 2 in the current research.

2.4 DEVELOPMENT OF RESEARCH HYPOTHESES: 1C – 1J, 2, 3 and 4

2.4.1 Research Question 1: How do Chinese and Western Fund Managers Differ in the Decision Making Process? (Hypotheses 1C – 1J)

The investment decision making process carried out by fund managers entails the analysis of large amounts of diverse information (Kothari, 2001). Due to a lack of sufficient empirical evidence in the domain of capital markets investment, the paradigms with which to test hypotheses relating to financial decision making are not immediately apparent. Past research into the differences in cultural values, cognition and social context between China and the West does not provide a clear implication for testable hypotheses either. Therefore, further empirical findings are necessary in order to suggest or

support differences in the investment decision making process between these two groups. Given the contextual nature of the current research, I opted to collect fund managers first-hand accounts to develop my research hypotheses.

In Study 1, 42 fund managers from the two cultural regions (28 Chinese and 14 Westerners) were interviewed about their actual experience of decision making. More detailed information on the participants and procedure followed is available in sections 3.2.1 and 3.2.2[5]. Eight hypotheses (1c – 1j) were formulated based on Study 1 as well as from the relevant literature. These hypotheses were to answer Research Question 1: "How are Chinese and Western fund managers different?" Chinese and Western participants were asked to describe a few examples of investment decisions they had made, such as "Which two portfolio decisions have you made in the last two years that have made you feel most satisfied personally?" In particular, they were asked to describe decisions regarding investing in the stocks of Chinese companies. By so doing, I intended to compare the decision making process of Chinese and Western fund managers when investing in similar stocks under a similar market context. Respondents were then asked for further details on the process. For example, how did they first identify the stock, what information did they consider, how did they evaluate the management of the company invested in, and how did they make choices between a long and short holding period.

Data analysis was carried out following several stages, such as coding, categorisation of data, writing memos, and identifying a core category (Birks & Mills, 2010), with the aim of generating ideas and gradually building hypotheses for further testing. The findings are presented in terms of eight hypotheses (1c – 1j).

Please note, in the illustrative quotes shown below, numbers in parentheses (1-42) refer to participants based on the sequence in which they were interviewed. Names have been removed for the purpose of confidentiality.

[5] In Chapter 3, two hypotheses (hypothesis 1a and 1b) relating to intuition were generated prior to Study 1, and thus tested in Study 1. It was therefore deemed appropriate to present the details of Study 1's participants and procedure in Chapter 3.

2.4.1.1 Macroeconomic Information: Hypothesis 1c

During the investment decision making process, macroeconomic and firm-specific information are two important acquisitions for fund managers. Typical macroeconomic information would include factors related to the political/economical/legal/social/technological environment as well as competitive rivalry within a sector or industry. In contrast, firm-specific information would include anything related to a particular company, such as its financial resources and health, physical and human resources, organisational structure and competitive advantage.

There has been little previous evidence of cultural differences in preferences between macroeconomic and firm-specific information during investment decision making. Most financial textbooks provide a list of macro and micro factors that could affect security valuation; however, they rarely give any indication about the weight each type of information should carry (e.g., Snopek, 2012; The Chartered Financial Analyst Program). In reality, given the finite intellectual resources and time committed to each decision, fund managers may prefer one type of information over the other, and therefore pay more attention to analysing one in particular.

My empirical findings suggest that Chinese fund managers pay more attention to macroeconomic information than firm-specific information, and vice versa for Western fund managers. For example, a Chinese fund manager was keen to find a sector that was booming based on macroeconomic data. Once the sector was chosen, he seemed to become more relaxed about the type of stock to be selected. He stated:

> "It is not possible to spend a lot of time and analyse many stocks in a sector as you might lose the best investment opportunities if you wait too long. Therefore, after carefully choosing a sector to invest in, I would then just randomly pick up a few well-known names within that sector." (Chinese 2)

In contrast, many of the Western fund managers preferred to discuss their analysis of the business model or the corporate governance of a particular

company. A Western fund manager explained the reasons why he invested in a particular company stock:

> "The stock had very good returns, good dividend payments, low PE (price to earnings ratio) and a good business model." (Western 7)

Admittedly, at times, the analysis of firm-specific information is quantitative, such as when using information from a company's balance sheet. Moreover, the quantitative security valuation models found in the financial textbooks often only incorporate firm-specific information (Li et al., 2014). However, the differences found in the analysis of firm-specific information by Chinese and Western fund managers cannot be chiefly explained as being due to differences in numerical skills. The majority of Chinese participants have undergone a very good financial education. Furthermore, the issue of corporate governance was not quantitative, yet involved firm-specific information. In fact, a Western fund manager described spending much effort in understanding the finer points of corporate governance issues when investing in Chinese companies, despite the language barrier. He said:

> "Because I invest in emerging markets some materials are written in Chinese. However, I need to talk with them (company managers and investor relationship officials) about some account anomalies, shareholder structures, finance risks, capital adequacy ratio, business risks, sector advantages, and some hidden assets as well. Corporate governance is the key thing to search for." (Western 15)

His explanation for the focus on micro level information (i.e., corporate governance issues) suggests a degree of personal pride is involved:

> "Corporate governance issues are always the most embarrassing issue for fund managers because it is a firm-specific problem, not market-wide. It only happens to you, not anyone else. It is lack of due diligence. You've got nobody to blame except yourself." (Western 15)

It is therefore important to verify the differences between Chinese and Western fund managers in relation to the information acquisition stage of the investment process. The themes drawn from this initial empirical evidence were then operationalized into the following testable hypothesis:

1c: Chinese fund managers pay more attention to macroeconomic information during fundamental analysis than Western managers.

2.4.1.2 Top-Down and Bottom-Up Approach: Hypothesis 1d

In investment decision making, identifying a potential investment opportunity relies on two common methods: a top-down or bottom-up approach. Using the top-down approach, a fund manager begins by assessing the macroeconomic environment and forecasting its near-term outlook in order to decide how much of the portfolio's funds should be allocated among the different sectors. Once the amount to be allocated to each sector or industry is determined, the manager then looks for the individual stocks to include in the portfolio. In contrast, a bottom-up approach focuses on the analysis of individual stocks and gives little weight to the significance of the context of the macroeconomic situation or sectorial development.

Chinese-Western differences in cultural values and holistic thinking style (e.g., Hofstede, 1980; Masuda & Nisbett, 2001) suggest that Chinese fund managers may prefer a top-down approach, and vice versa for Western fund managers. For example, in terms of visual attention, the Chinese exhibit a more holistic and field-dependant attention mode, which may imply a preference for macroeconomic factors in their investment decision making. On the other hand, Westerners exhibited a more focused analytic and field-independent attention mode, which many imply a preference for information on individual companies or stocks. My own observations indicate a similar pattern. For example, well-known Western fund managers are often loyal followers of a bottom-up approach; they include Warren Buffett (Berkshire Hathaway, Inc), Dean LeBaron (Batterymarch Financial Management), and Peter Lynch (formerly of Fidelity Magellan Fund). Moreover, the majority of Western fund managers in Study 1 preferred the bottom-up approach, while most Chinese participants described their investment approach as top-down:

> "My approach is to choose a hot sector first and then randomly select a stock within that sector." (Chinese 2)

In my sample, Western fund managers did not have such a strong preference for the so-called “hot sector” or “hot topic”. Instead, they preferred to rely on bottom-up screening to select stocks; they particularly emphasised quantitative models or the quality of the business:

> “We use our computer model to make the first selection for us. Then after the initial selection, we start using discretionary skills to drill deeper about each individual stock. We use company visits to help us decide whether the profit is sustainable or not. For example, we will see whether there is a gap between what managers say and what they do. Therefore, the business model is very important … We use our bottom-up model to avoid bad apples and buy good apples.” (Western 12)

In contrast, a Chinese manager preferred a top-down approach because it was cognitively easier or more mentally accessible, i.e., that some ideas are more obvious than others:

> “My investment philosophy favours the top-down approach. If you want to find a tree within a desert, it would be very difficult. However, if you want to find a tree within a forest, it would be easier. Therefore, finding the right sector is the top priority.” (Chinese 20)

In this example, when discussing investment selection, the Chinese fund manager made an analogy between a sector and a forest, and between a stock and a tree - the attributes focusing on the proportion of each element. In this regard, for the Chinese fund managers, the mental accessibility of a top-down approach may find its counterpart in their cultural environment. For example, the format for presenting the address of the Shanghai Stock Exchange using both the English/Western and Chinese style are as follows:

Shanghai Stock Exchange	P.R. China
528 South Pudong Road	Shanghai
Shanghai	528 South Pudong Road
PR China	Shanghai Stock Exchange
200120	200120

In the Western version, the name of street is followed by regions of increasing size, perhaps symbolising a tendency towards a bottom-up approach. In contrast, the Chinese style suggests a top-down approach.

In order to test differences in approach during investment decision making, my next hypothesis is:

1d: Chinese fund managers will be more likely to adopt a top-down approach than Western managers in their investment decision making

2.4.1.3 Stock Holding Period: Hypotheses 1e and 1f

Past research into long-term time values indicates that the Chinese favour long-term oriented actions; they are argued to have a longer-term horizon compared to Westerners (Hofstede, 1980). The implication of Chinese-Western differences in long-term orientation regarding financial decision making could suggest that the Chinese tend to hold on to stock for a longer period after purchase. Empirically, however, the pattern points to the opposite. According to a report published by "Morningstar China" in June 2014 (Gao, 2014), the average turnover ratio[6] for Chinese equity mutual funds was 232% in 2012, almost three times higher than that of American equity mutual funds (70%) in the same year. Within that year, approximately 80% of American funds had a turnover ratio of less than 100%, compared to only 20% of Chinese funds. Since the higher turnover ratio indicates higher trading frequency, it shows that Chinese fund managers have a shorter stock holding period than Western fund managers, a fact which was also commonly recognised by both Chinese and Western participants in my sample. For example:

> "I feel Chinese fund managers have a shorter time horizon and are less long-term focused." (Western 11)

[6] A manager's average annual portfolio turnover is the ratio of the total of all purchases in a portfolio over one year to the average value of the portfolio over that period of time. The higher turnover ratio indicates higher trading frequency, and hence shorter stock holding period.

A Chinese fund manager (Chinese 18), who reported that his holding period was about six months, considered that this was longer than most other Chinese fund managers:

> "I have a relatively longer-term view than average equity investors in China, and my holding period is about six months." (Chinese 18)

In contrast, the majority of Western participants had a holding period of at least one year or above.

Nevertheless, the holding period can only be observed ex post; thus, it might be a crude approximation of investors' ex ante time horizon (Atkins & Dyl, 1997). In addition, myopic loss aversion is argued to be associated with investment decision making through trading frequency (Iqbal, et al., 2021). Myopic loss aversion occurs when investors take a view of their investments that is strongly focused on the short term, leading them to react too negatively to recent losses, which may be at the expense of long-term benefits (Thaler et al., 1997). During interviews, I therefore paid particular attention to participants' preference for holding on to stocks when they are currently making a loss. For example, a Chinese manager talked in length about this rationale:

> "I am still holding it, even though suffering paper losses. Our company does not have a stop loss policy. Therefore, I don't have to close positions despite paper losses. In the long run, it might be able to recover. My rationale is that it is the second largest shoe company in China. It does not make profits, but it does not mean that it will not make profits in the future. I feel it is not possible that they will make losses for ever. For example, there are a lot of fake products online. In the future, if market rules become tightened, the good-quality products will still shine. To be honest, I really don't have a clear idea what its future will be." (Chinese 9)

In this particular instance, his insistence to hold on to stock seems to fit with inferences of a long-term culture, but it contradicts general views about Chinese investors' short-termism. Failure to trade for a long period after buying is not in itself indicative of a long-term view. Although one would like to see fund managers maintaining a long-term view, they are also expected to act swiftly on relevant new information. It therefore suggests that a more holistic approach to assessing fund managers' time horizons would be preferable to

relying on one single indicator, i.e., the average holding period. To accomplish this, next two hypotheses were defined with the intention of examining them both qualitatively and quantitatively. Although the evidence from past research on cross-cultural differences in time preference is mixed, my empirical data from Study 1 seemed to lean towards the use of shorter holding periods by the Chinese managers. Thus,

1e: Chinese fund managers will tend to have a shorter average stock holding period than Western fund managers.

1f: Chinese fund managers will tend to wait a shorter time before selling when a chosen stock underperforms.

2.4.1.4 Management Evaluation: Hypothesis 1g

Past research suggests that the Chinese tend to attribute causality to context while Westerners would attribute it more to internal dispositions (e.g., Nisbett et al., 2001). Empirically, I did observe differences in the approach to management evaluation during stock selection with both Chinese and Western participants. Westerners seemed to have a set of fixed criterions for evaluation, such as honesty, professional skills and being hard-working, whereas Chinese participants preferred evaluating senior managers based on the relativity of the context, such as ownership, size of the firm, stage of development of the firm, sector, and the current macro environment in which the firm was operating. For example, a Chinese participant observed:

> "There are some differences in terms of the ideal type of managers. For small to medium companies, a manager needs to be concerned with totally different things compared with those issues highlighted by managers at a state-run company. Therefore, their styles need to be different. For a state-run company, I am looking for a manager who is stable and politically savvy. For a small firm, I am looking for someone who is more dynamic and innovative." (Chinese 14)

A "checklist" is often utilised by Western participants as a means of carrying out qualitative analysis, including management evaluation. It seems that the

items on the checklist are consistent for all companies, therefore different contexts could not be reflected. For example:

> "My analysts do company visits. They have a checklist to tick. The key thing you are looking for is whether managers pay attention to shareholders' interests. For example, managers say that they care about shareholders' interest, but do not have time to see you. I would see this as opposite to what he says. Another example is if managers work in a very luxurious office, which is another bad sign. Analysts have a checklist about managers and the business to complete for each visit. The checklist is the same for all industries." (Western 34)

The findings in my study about management evaluation appear to offer a reflection of differences in attention mode in financial decision making between China and the West. Therefore, based on the above observations, the next testable hypothesis is:

1g: Chinese fund managers will evaluate company managers based more on the relativity of the context than Western fund managers.

2.4.1.5 Precision of the Investment Procedure: Hypothesis 1h

Investment procedure is the process by which fund managers can reduce an investible universe to a manageable set of stocks that conform to a group of desired characteristics. Therefore, it is sometimes identified as a screening process. In other words, it is a framework or a series of steps that a fund manager can rely on in order to identify the best stock to purchase. However, in the finance literature to date, no research has examined systematic differences in investment procedure between Chinese and Western investors. Although past work by cultural psychologists may indicate that Chinese take a more holistic and intuitive approach (e.g., Norenzayan et al., 2002), this research lacks sufficient empirical evidence in the investment domain to derive a clear hypothesis.

My approach was to first carry out a random online search of Western and Chinese mutual funds to review the way they described their investment process. Their descriptions revealed an interesting cultural difference. For Western mutual funds, descriptions such as "structured", "rigorous" and

“disciplined investment process” were very common. In contrast, Chinese descriptions included “a holistic approach to investing”, “efficient investment process” and “build a portfolio through a combination of top-down and bottom-up”. It seemed that Western institutions focused on consistent scientific aspects of investing, while Chinese institutions focused more on holistic and mixed-methods approaches.

In Study 1, I found that, empirically, in contrast to Western fund managers, Chinese managers had a less strict or less precise investment process, and they were also less consistent in following through with any pre-defined rules. For example, a Chinese manager drew an interesting analogy between fund managers and musicians,

> “Investment decision making is more like an art rather than science. It is like playing musical instruments. The master musicians can tell the nuance by their ears, rather than by scientific measurements.” (Chinese 2)

Similarly, another Chinese manager compared fund managers to dentists:

> “I have tried to reflect and build a system; however, rules are very difficult to be summed up. Investment is not a science, but more like an art. Western fund managers have strict rules, but investment decision making is different from a dentist’s check-up menu. Dentists have a checklist for the process, but investment decision making cannot: it is very fluid and changing all the time.” (Chinese 25)

Chinese 14 made an even more extreme analogy between investment and arcane martial arts; he emphasised factors such as intuition or emotion over scientific reasoning:

> “Investment is not something that can be described properly. It is like some arcane martial arts. It can only be taught by experience and meditation, rather than by words. Sometimes it was difficult to tell why I had confidence in this stock, and why I thought it would make money. It is not about more information or not.” (Chinese 14)

Some Chinese managers touched upon examples related to investment indicators. For example, Chinese 31 spoke about stock prices:

> "As a fund manager, you don't need to make everything so precise, because the precision of the model or the precise prediction of future revenue cannot be definitely translated into positive stock prices." (Chinese 31)

Similarly, although Chinese 5 repeatedly emphasised that market or sector trends are very important, he did not have a clearly defined set of indicators to assess them. He said, he relied on "a mixture of many things" to gauge its direction. It seemed unlikely that there was a strict set of steps to follow during his investment process.

In contrast, the Western fund managers described a far more structured process in their decision making. Western 7 divided his investment process into five stages: screening, discussion, investigation, a full workup, and decision. During his screening process, he would carefully examine 18 factors, including liquidity, profitability, price to book ratio, debt to equity ratio and working capital. In the discussion stage, he would consider sectorial or macro information. In the investigation stage, visiting companies was an important method to find out further information. A full workup and decision may proceed at the same time.

In addition to their thorough and rigorous reasoning process, it appears that Western fund managers also tended to consistently follow a set of defined rules even though those rules were sometimes rather strange or, in some instances, could lead to regret or losses. For example, Western 37 spoke about local rules he had generated, which appeared to have been successful:

> "Over many years, I have generated a rule of thumb that there are certain people I will not deal with. Managers who have long fingernails, or a beard, or who have the top of their little finger cut off (he later explained that it meant the person might be a gangster) or whose spokesperson are too beautiful." (Western 37)

In another example, Western 15 reported that based on his investment experiences and philosophy, he had established a rule that whenever there was a problem related to the corporate governance standard of a company, he would sell its stocks immediately. He then dealt with a Chinese company

which was reported to have a corporate governance problem, as “the founding family looted the company and hurt minority shareholders”. Because this situation fit his rule, he sold the stocks immediately. However, the price of stocks then went up. He blamed the losses on the market, rather than his rule or his action of following the rule, but admitted that although following the rules did not always deliver the best result, he was glad that he had stuck to his process:

> “I adhered to my basic strategy, so I am fundamentally glad about it. However, since the stock has gone up, I am also a bit frustrated. The market can be very strange sometimes.” (Western 15)

Clearly there is no standard way to invest. As Hertz (1988) has pointed out, if “all investors followed the same course of action the entire game would come to a halt” (p.17). It is therefore an important area in which to locate differences in financial decision making, leading to my next hypothesis:

1h: Chinese investors’ investment procedure will be defined less precisely than it is by Western investors.

2.4.1.6 Political Analysis: Hypothesis 1i

Policy and political analysis are extremely important for investment decision making (Chevalier & Hirsch, 1981; Haendel & Jordan, 2019), and are usually defined as a series of steps. For example, Williams (1971) has identified policy analysis as “a means of synthesizing information including research results to produce a format for policy decisions (the laying out of alternative choices), and of determining future needs for policy relevant information” (p. xi). Political analysis is also represented as a series of steps by Yaffee and Chadwick (2004), who describe “a process of disaggregating the key players in a community or policy environment, identifying how they influence progress toward your goals, and developing strategies to interact with them to advance your goals” (p.1). In fact, “analysis” comes from the Greek word “análusis”, meaning “to break down into component parts”. Although Chinese and Greek philosophical thinking are arguably different (Nisbett, 2004), it is difficult to derive a clear implication of differences related to political analysis across

cultures from past research on cultural values and cognitions. Empirical findings from Hertz (1998) suggest that in terms of policy and political analysis, the differences between Chinese and Western investors is "a matter of degree and not of kind" (p. 23). Similarly, my own findings suggest that in this context, Chinese and Western fund managers follow a similar analysis procedure, but Chinese managers tend to use additional tools.

First, both Chinese and Western fund managers followed the essential definitions of policy and political analysis by carrying out a series of steps to synthesise information and disaggregate the key political players in order to develop strategies. For example, a Chinese fund bought defense stocks when the relationship between the US and China turned sour. Similarly, a Western fund manager sold stocks in China's material sector due to concern over the country's structural reforms.

Second, both Chinese and Western fund managers closely heeded the direction taken by their governments' monetary and fiscal policies. For example, whilst carrying out fieldwork at an investment conference in London, I witnessed a heated debate among investors about whether the Federal Reserve would increase interest rates based on hints made in a recent speech by Janet Yellen[7] wherein she changed her description of the US economy from "weak" to "relatively weak". In my research sample, there were numerous similar examples:

> "In China, the policy is clear that the government is trying to support clean and high-tech industry - the so-called new economy - and restrict heavy and polluted industry which is called old economy. Investors should go with the policy direction." (Western 11)

> "In general, interest rates fluctuate in a cycle. According to my experience, interest rates tend to go up quarterly or semi-annually. Therefore, it is a good idea to open trading at the end of February and wait to sell at the end of July." (Chinese 13)

[7] Chair of the US Federal Reserve, 2014-2018.

Third, both Chinese and Western fund managers sometimes expressed uncertainty or an inability to predict policy or political changes:

> "Luck is very important, as it is difficult to predict government movements. For example, in the past there was a stock related to nuclear power. I purchased it because I expected that the government would issue an encouraging policy on nuclear energy. However, many months passed, and the policy is yet to materialise. Therefore, my theory is that analysis and results are not 100% correlated because often luck and other factors which are outside of our control play a very big role." (Chinese 14)

> "My biggest worry about investing in China is the anti-corruption campaign. It is very difficult to predict who has connections to whom, and whether the person you are dealing with has a connection to bad people. Therefore, I don't like expensive stocks. Politics is so uncertain: if a little thing goes wrong, it could lead to a big drop." (Western 37)

However, it was possible to observe that Chinese fund managers utilised more tools to grasp the issues at hand, including common sense and intuitive reasoning. For example, China's anti-corruption policy frequently appeared in fund managers' descriptions of their investment decision making. In contrast to the Western participant 37 (see above) who simply admitted his inability to predict consequences, a Chinese fund manager had adopted an interesting way to tackle the issue, albeit rather unsuccessfully. His initial plan was to buy a company within the food industry as he believed that it was a good defensive sector during times of downturn: "People have to eat regardless". Although he knew that the anti-corruption campaign would reduce consumption of high-end seafood, such as abalone, he felt that sea cucumber would not be recognised as a luxury product in this category. He therefore purchased a large number of stocks in a sea cucumber company. Ultimately, the anti-corruption campaign turned out to be both more restrictive and more widespread than he originally expected. Government officials applied restrictions on the consumption of this seafood to promote the adoption of a more frugal lifestyle. As a result, the consumption of sea cucumber was negatively impacted. In retrospect, he said:

> "Its sale revenues went down, and product prices also suffered. Although the company was still solid at that time, I sold its stocks and took losses,

> because I could not see any prospect that the anticorruption policy would be loosened any time soon." (Chinese 46)

Given the fact that no clear guidelines were provided from the government about the kinds of high-end food that would be banned, this manager's analysis was largely based on his common sense and his understanding of similarities and relationships among different seafood. His reasoning process appears to resonate with the empirical findings of cultural psychologists, which suggest that Westerners tend to use deterministic rules when categorising objects, whereas East Asians use similarities and relationships among objects (Choi et al., 1997; Choi et al., 2007; Norenzayan et al., 2002).

In addition to intuitive reasoning, a somewhat superstitious method employed by another Chinese fund manager involved making predictions with the use of an astrological chart. He reported:

> "I pay a lot of attention to political situations in China by gathering information from social networks and official speeches. I also do a lot of analysis through deductive reasoning: examining the underlying meaning of official speeches, the politician's management style and even the horoscope of their birth charts". (Chinese 41)

Hertz (1998) also noted the particular efforts made by Chinese investors to carry out political analysis, dubbing it "a high art". She describes how investors pay extreme attention to "hints in newspapers and photographs" that could shed light on power plays among important central and municipal leaders. A Western fund manager in my study expressed a similar opinion:

> "Chinese fund managers focus more on policy direction than Western fund managers. One reason might be their superior ability to read and understand these policies." (Western 23)

Therefore, taking this information into account, my next hypothesis is:

1i: Policy and political analysis will be a more important part of Chinese fund managers' decision making process than it is for Western fund managers.

2.4.1.7 Perception of the State: Hypothesis 1j

As mentioned previously, Hertz (1998) suggests that Chinese investors not only pay attention to the role of the state, but are also "primarily" subject to its "fetishization" (p. 23). The term "fetish" is used in a variety of disciplines, such as history of religion, political science, positivist sociology, psychoanalysis and the clinical psychiatry of sexual deviance, and continental philosophy. A common thematic configuration among these various discourses is the "dependence of the fetish for its meaning and value on a particular order of social relations, which it in turn reinforces" (Pietz, 1987). In other words, a fetish is an object believed to have supernatural powers; particularly, man-made objects that have power over others. The fetish object has been viewed as a representation of the penis (Freud, 1950), commodity (Marx, 1867), stock markets (Appadurai, 1986), or the Chinese state (Hertz, 1998). According to Hertz (1998), Chinese investors hold unquestioning reverence, respect, and devotion to the Chinese state, as well as to its role in controlling the movements of the stock market. Their interpretation of market prices is heavily influenced by their obsession with government supported companies, industries and even whole markets.

Thus, the Chinese government can be considered a "phantastic object" - a term used in the study of emotional finance to describe a myth of exceptionality held by financial investors (Tuckett, 2011). The term represents a subjectively attractive or idealised "object" (people, ideas or things - in the current case, "the state") that fund managers find highly exciting, to the extent that they subsequently idealize potential rewards and overlook risks (Tuckett, 2011). For example, the preference of Chinese fund managers to invest in state-run firms might not be so much based on the companies' fundamentals, but on a rather unrealistic sense of faith in the government's willingness and ability to provide support. As a result, they may not carry out full and objective risk-reward calculations. The attitude of Chinese fund managers in relation to purchasing Chinese banks is a good example. Although government ownership of banks is a common phenomenon across countries (La Porta et al., 2002), in the case of China, the state dominates the entire financial system (Boyreau-Debray &

Wei, 2005). As demonstrated in Study 1, some Chinese managers had a very subjective view of the risks involved when dealing with state-run banks:

> "I believe that Chinese banks can never go bankrupt as long as the Chinese government is stable. However, if the political situation gets out of control, the banks may go down with it. I think the difference between Chinese and Western investors is that Chinese investors have greater confidence in the government's ability and they understand politics better." (Chinese 36)

> "My company likes Chinese bank stocks. I held them during the past one year despite paper losses in the first eight months. My analysis is that it cannot go down anymore, and dividends would be sufficient to compensate for another 50% fall. Also, we believe that the Chinese government will never let banks fail." (Chinese 31)

This phenomenon was well noted by a Western fund manager in my sample:

> "I think that Chinese fund managers sometimes have a funny concept of risk and rewards. When I talked with some fixed income managers in China, they just don't believe there is any default risk. In their mind's, the government is guaranteeing everything. However, in the West, we are used to seeing governments come and go. Our government does not get too involved in people's daily activities." (Western 23)

Nevertheless, I have also observed a Chinese fund manager to hold extreme views against investing in Chinese banks. This occurred during my third fieldtrip to China in May 2015, which coincided with a very unique period in the history of China's equity market. During the period of my Study 1 data collection, there was an enormous boom in China's equity markets after almost seven years of declining prices. According to the market data provided by Wind Ltd, a leading financial data provider in China, this positive trend in the Chinese stock markets became significantly noticeable around July 2014, reaching its peak on June 15, 2015. The markets subsequently tumbled by nearly 42% in less than three months. In retrospect, my fieldtrip took place at the very height of this boom, and, unfortunately, also near to its end.

The interview in question, was held at a badminton court in a sports club. My contact had told me the fund manager would be playing that evening. I arrived

in the middle of the match; the whole court was full of excitement - an atmosphere not dissimilar to China's equity markets during that period. I was guided to the audience area by my contact where we had a brief conversation. He told me, "China's A share market[8] is doing really well. We have finally seen the arrival of the booming market after nearly seven years of waiting." I was about to ask, "Do you know how long the good times will last?" but I sensed it might be an uncomfortable question considering the positive atmosphere. After the match, I was introduced to the star fund manager to carry out the interview. When I asked his opinion about Chinese banking stocks, he said:

> "I don't like investing in Chinese state-run companies, particularly banks. Banking is a declining industry. The people who run Chinese banks are doing nothing every day." (Chinese 45)

His rather extreme view might reflect the unusual atmosphere of a boom period, which can result in over-confidence. Interestingly, around this time a blog started circulating on China's social networks and some online groups run by investors of which I was a member. The blog stated:

> "The Shanghai A-share index was closed at 5306.15 on June 15. It seemed to resonate with President Xi's birthday which is 1953.06.15. Therefore, it is predicted that Shanghai A-share index could reach 5507.01 on July 1, 2015, because Premier Li's birthday is 1955.07.01. Moreover, because the birthday of China's first lady is 1962.11.20, the peaking point of this booming market could be at 6211.2. Well, there are still a lot of opportunities to grasp before it peaks!" [9]

Based on the above discussions, my next hypothesis is:

1j: Chinese fund managers are more likely to treat the Chinese government as a "phantastic object" than Western fund managers.

[8] China A-shares are the stock shares of mainland China-based companies that trade on the two Chinese stock exchanges, the Shanghai Stock Exchange and the Shenzhen Stock Exchange.
[9] This blog was later censored in China.

2.4.2 Research Question 2: Why are Chinese and Western Fund Managers Different? (Hypotheses 2A – 2E)

According to Busenitz and Lau's (1996) model, eco-cultural background impacts investment decision making via three channels: economic context, cultural values and personal characteristics. Thus, an additional matter of interest concerns the extent to which differences in economic context, cultural values and cognitive style may explain behavioural differences in investment decision making (Research Question 2). Because each culture may have unique economic context, values and cognitive style, these distinctive variables might be expected to mediate the relationship between eco-cultural background and the equity investment decision making process. That is, they can explain the process through which eco-cultural background and investment decision making are related and why Chinese and Western fund managers behave differently. The basic assumption was that the eco-cultural background constitutes a general milieu that encourages certain cultural value, cognitive preferences, and economic context, which, in turn, would lead to certain investment behaviours. As noted earlier, few studies have examined all three channels of variables in an integrated framework for the investment decision making setting (for the business sector see Mitchell et al., 2000); thus, it is safe to say that comparatively little is known about the way these three channels impact the relationship between cultural background and investment behaviours in the financial industry. I treated this as an empirical issue, and propose the following hypotheses according to the framework of the current research (see Figure 1, p.30). For the channel relating to cultural values, I have parsimoniously selected individualistic and collectivistic cultural values, while for the channel relating to cognition, I have selected holistic thinking. I have taken this approach because these factors are considered to be the most important to decision making according to past research.

2a: The relationship between eco-cultural background and investment behaviours is mediated by individualistic cultural values

2b: The relationship between eco-cultural background and investment behaviours is mediated by collectivistic cultural values

2c: The relationship between eco-cultural background and investment behaviours is mediated by holistic thinking tendency

These three hypotheses examine whether observed differences in the investment decision making process of Chinese and Western managers (hypotheses 1c – 1j) are due to cultural values or cognitive style. In other words, fund managers' values and cognitive style may primarily be influenced by eco-cultural background; for example, Chinese fund managers may emphasise collectivist values and may be generally more holistic in their thinking style than Western managers. Subsequently, these tendencies concerning cultural values and cognitive style among Chinese fund managers may help encourage certain investment behaviours (hypotheses 1c – 1j). To test hypotheses 2a, 2b and 2c, in Study 3, I administered a survey to explore the cultural values and holistic cognitive preference of individual fund managers; the quantitative scores derived from these enquiries were used for mediation analysis.

In order to examine the influence of economic context, it is first necessary to clarify a number of issues. First, within the current research there are two economic contexts under discussion: domestic and foreign. In this research, the Chinese fund managers were mainly operating within a domestic economic context, because they primarily invested in Chinese domestic capital markets. Similarly, Western fund managers in the survey study (Study 3) also operated within a domestic economic context as they mainly invested in Western capital markets. In contrast, Western fund managers in the interview studies (Studies 1 and 2) had experience of dealing with both domestic and foreign economic contexts and were asked to describe their decision making regarding investment in the stocks of Chinese companies.

Secondly, instead of testing the influence of economic context, the current research examines the influence of fund managers' understanding of or beliefs about economic context. The reason being is that the research is reliant upon fund managers' own accounts of their investment decision making; thus, understanding of the context, rather than the context itself, was captured in the interview data collection process. Furthermore, according to Chong and

Tuckett (2014), fund managers' investment processes are sets of conviction narratives or beliefs about the realities of a particular company stock or economic fundamentals; thus, investigating understanding of or beliefs about economic context is more suitable for research which aims to examine decision making.

Based on the clarifications provided above, the next two hypotheses are:

2d: The relationship between eco-cultural background and investment behaviours is mediated by fund managers' understanding of the domestic economic context.

2e: The relationship between eco-cultural background and investment behaviours is mediated by Western fund managers' understanding of the foreign economic context.

Due to the difficulty of measuring fund managers' perceptions of economic context quantitatively, in the current research the hypotheses relating to economic context were tested via a qualitative approach. Accordingly, the interview data from Studies 1 and 2 was analysed to determine whether the factors underlying the observed relationship between eco-cultural background and investment behaviours were related to fund managers' beliefs or concerns about economic context. In other words, whether fund managers' understanding of or beliefs about economic context were influenced by their eco-cultural background, and if such beliefs subsequently encouraged them to adopt certain investment behaviours in their decision making process.

During the interviews, the researcher constantly probed participants for details about their decision making process and their rationales for taking certain actions. For the Chinese fund managers, this involved examining their understanding of the Chinese domestic economic context, whereas for Western fund managers who were also investing in Chinese markets, it involved examining their understanding of the foreign economic context in China as well as their attitude to their own domestic Western economic context. According to the literature review, section 2.3 *Influence of economic context on investment decision making*, China and the West are significantly

different in two economic contextual factors: capital markets and state power in the economic system; factors which, in many ways, have led to differences in decision making. Therefore, if particular features concerning capital markets or state power in the economic system were found to be commonly mentioned during the interview studies, it would be a good indicator of the significant influence of fund managers' understanding of economic context.

2.4.3 Research Question 3: How are These Behavioural Differences Related to Investment Returns? (Hypothesis 3)

As Figure 1 illustrates (see p.30), the investment decision making process leads to a decision which indicates whether or not an individual has chosen to invest in a particular stock. This decision is particularly relevant to investment performance research as the decision represents a choice made in the period between intention to invest and investment; in other words, after the decision making process has been followed. As a result, the decision making process is an appropriate focal variable for studying investment performance, because investment performance or returns are related to the type of stock sector, the nature of the business, the growth rate of an economy or sector, the qualifications of a management team, and the holding period of stocks.

The first group of eight hypotheses (1c – 1j) have predicated that investment decisions made by Chinese and Western fund managers are different. If these hypotheses are supported, it may imply that the specific investment behaviours can be expected to differ by culture. From the perspective of the final decision outcome, it is meaningful to investigate if a correlational relationship can be established between these specific investment behaviours and investment returns. In other words, investment behaviours that are found to be different by cultural background may be correlated to investment returns. Thus, I would like to explore these correlational relationships in the next group of hypotheses, following the testing of the first group of hypotheses (1c-1j)

Hypothesis 3: Investment behaviours that are found to differ significantly across cultures may be correlated to investment returns.

2.4.4 Research Question 3: What is the Moderation Effect of Individual Variations in Cultural Values and Cognitive Style on the Relationship Between Investment Behaviours and Investment Returns? (Hypotheses 4A – 4C)

Because each fund manager has unique personal characteristics, these may be expected to moderate the relationship between certain decision making behaviours and investment returns. That is, the specific investment behaviour associated with investment returns is expected to differ due to certain personal traits, regardless of cultural background. In other words, depending on the individuals involved, the same investment behaviours can be successful or unsuccessful.

In searching for suitable personal traits for moderation effect testing, I selected cultural values and cognitive style for the following reasons. First, according to the literature review discussed earlier, cultural values and cognitive style are very important factors in the decision making process. Secondly, in the current research cultural values and cognitive style are measured according to individual fund managers' responses to the survey questions in Study 3 (see Appendix L), rather than on predictions (or assumptions) based on conventional thinking about East-West differences. Thus, these aspects reflect individual differences, a criterion for a good moderator.

As noted, cultural values and cognitive style were treated as mediators in mediation effect tests for in hypothesis 2 because they are influenced by cultural background. However, as argued in section 1.2 *Definition of eco-cultural background*, culture is as much an individual construct as it is a macro construct. That is, to some extent, culture exists in each and every one of us individually as much as it exists as a global, social construct. Individual cultural differences can be observed among people to the degree to which they adopt and engage in the attitudes, values, beliefs, and behaviours that, by consensus, constitute their culture. If a person acts in accordance with these shared values or behaviours, then that culture resides in them; if a person does not share these values or behaviours, then they do not share that culture. Therefore, the cultural values and cognitive style of people within a culture can be treated as both mediators (influenced by cultural background) and

moderators (reflecting personal differences and independent from cultural background).

As moderators, cultural values and cognitive style are expected to influence the manner by which certain investment behaviours relate to investment returns across cultures. For example, for individuals who are very individualistic, higher attention to macroeconomic information may bring lower returns than those individuals who are more collectivistic. Finance and cultural finance theories have not developed to a point where I am able to identify a priori the specific aspects that are likely to vary, and why. Accordingly, I treated this as an empirical issue, and suggest:

Hypothesis 4a: The relationship between investment behaviours and returns is moderated by fund managers' individualistic cultural values

Hypothesis 4b: The relationship between investment behaviours and returns is moderated by fund managers' collectivistic cultural values

Hypothesis 4c: The relationship between investment behaviours and returns is moderated by fund managers' holistic thinking tendency.

2.5 SUMMARY OF RESEARCH HYPOTHESES

On the basis of the analysis of the previous literature and my empirical study (Study 1), I have refined the original conceptual framework in Figure 1 (see page 30) and couched three groups of hypotheses (see Figure 2, page 82 and Table 1, page 83) regarding:

1. Cross-cultural differences in the *investment decision making process/third layer* to answer research question (i) "How do Chinese and Western fund managers differ in their decision making process?"

2. The influence of *fund managers' understanding of economic context, cultural values and cognitive style/second layer* on the relationship between the *eco-cultural background/first layer* and the *investment decision making process/third layer* to answer research question (ii)

"Why are Chinese and Western fund managers different in their investment decision making process?"

3. The correlations between the *investment decision making process/third layer* and *investment returns/final outcome* as well as the moderation effect of *cultural values and cognitive preference/second layer* on the relationship between the *investment decision making process/third layer* and *investment returns//final outcome* to answer research question (iii) "How are these behavioural differences related to investment returns?"

Within the *investment decision making process/third layer*, I have further divided 10 hypotheses into three categories according to the key information under consideration: intuitive investment decision making (two hypotheses: 1a – 1b in Chapter 3), non-state related (six hypotheses: 1c – 1h in Chapter 4), and state-related (two hypotheses: 1i – 1j in Chapter 5). Admittedly, the division between these three categories is not exclusive as information may be shared among the hypotheses. The categorisation is used mainly for the convenience of presentation, and also due to the presence of differing investigation methods, as will be described in Chapters 3, 4 and 5. The second and third groups of hypotheses will be chiefly examined in Chapter 6.

Figure 2: A Flow Map of Hypotheses in the Conceptual Framework

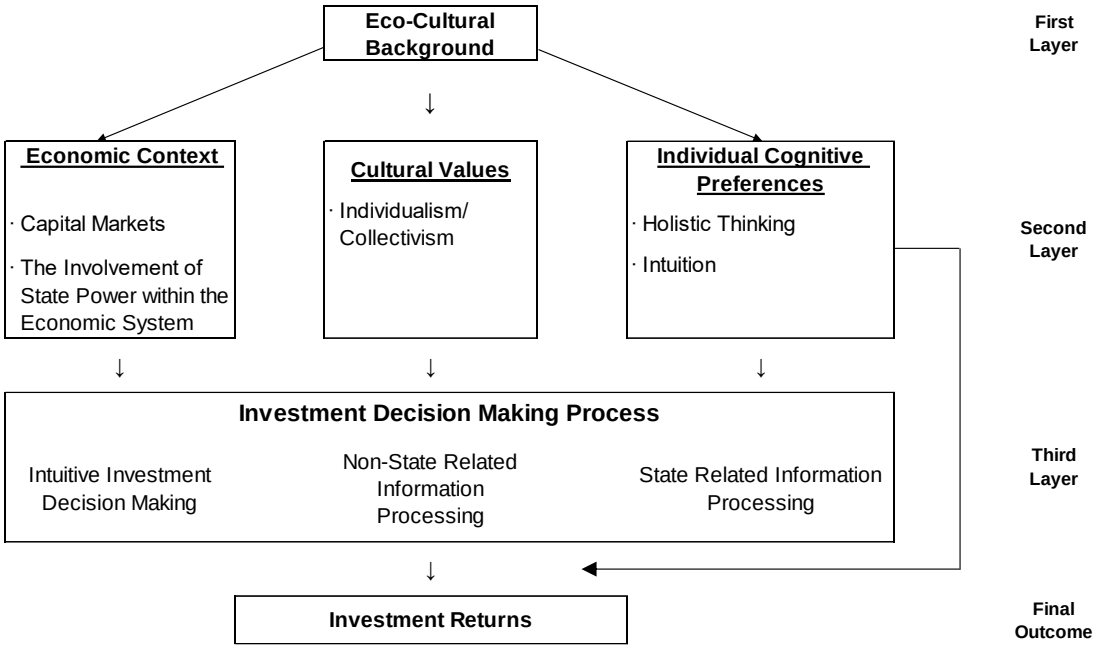


Table 1: Summary of Research Hypotheses

First Group _ Research Question 1	
Intuition (Chapter 3)	*1a: Chinese fund managers tend to use intuition more than Western fund managers in their investment decision making process.* *1b: Chinese fund managers are generally more intuitive in their cognitive style than Western fund managers.*
Non-State Related (Chapter 4)	*1c: Chinese fund managers pay more attention to macroeconomic information during fundamental analysis than Western managers.* *1d: Chinese fund managers will be more likely to adopt a top-down approach than Western managers in their investment decision making.* *1e: Chinese fund managers will tend to have a shorter stock holding period than Western fund managers.* *1f: Chinese fund managers will tend to wait a shorter time before selling when a chosen stock underperforms.* *1g: Chinese fund managers will evaluate company managers based more on the relativity of the context than Western fund managers.* *1h: Chinese investors' investment procedure will be defined less precisely than it is by Western investors.*
State Related (Chapter 5)	*1i: Policy and political analysis will be a more important part of Chinese fund managers' decision making process than it is for Western fund managers.* *1j: Chinese fund managers are more likely to treat the Chinese government as a "phantastic object" than Western fund managers.*
Second Group _ Research Question 2 (Chapter 6)	
Quantitatively Tested Mediation Effects	*2a: The relationship between eco-cultural background and investment behaviours is mediated by individualistic cultural values* *2b: The relationship between eco-cultural background and investment behaviours is mediated by collectivistic cultural values* *2c: The relationship between eco-cultural background and investment behaviours is mediated by holistic thinking tendency.*
Qualitatively Tested Mediation Effects	*2d: The relationship between eco-cultural background and investment behaviours is mediated by fund managers' understanding of the domestic economic context.* *2e: The relationship between eco-cultural background and investment behaviours is mediated by Western fund managers' understanding of the foreign economic context.*
Third Group _ Research Question 3 (Chapter 6)	
Correlations	*Hypothesis 3: Investment behaviours that are found to differ significantly across cultures may be correlated to investment returns.*
Moderation Effects	*Hypothesis 4a: The relationship between investment behaviours and returns is moderated by fund managers' individualistic cultural values* *Hypothesis 4b: The relationship between investment behaviours and returns is moderated by fund managers' collectivistic cultural values*

	Hypothesis 4c: The relationship between investment behaviours and returns is moderated by fund managers' holistic thinking tendency.

CHAPTER 3 Intuition in Investment Decision Making (Research Question 1) [10]

3.1 INTRODUCTION

The aim of this chapter is to explore the influence of eco-cultural background on the use of intuition by fund managers as well as to examine their application of intuitive cognitive thinking in investment decision making. Intuition concerns the way various information is processed; it originates beyond consciousness and is frequently accompanied by emotion (Sinclair & Ashkanasy, 2005). Intuition is therefore different from the specific investment behaviours discussed in Chapters 4 and 5.

The investigation process outlined in this chapter differed twofold. First, unlike the hypotheses discussed in Chapter 4 and 5, the two hypotheses related to intuition were formulated *prior* to the data collection of Study 1. Hence, the interview questions used in Study 1 were directly related to intuition in order to investigate hypothesis 1a: “Chinese fund managers tend to use intuition more than Western fund managers in their investment decision making process”. Data analysis included several stages, including: the coding and categorisation of data, writing memos, selecting core categories and identifying core themes (Birks & Mills, 2010). This method aimed to investigate the way individuals approach a decision situation.

Secondly, in Study 2, hypothesis 1b: “Chinese fund managers are generally more intuitive in their cognitive style than Western fund managers” was examined by a self-reported cognitive style questionnaire, and participants were simultaneously interviewed for the purpose of investigating the other Hypotheses 1c – 1j (see Chapters 4 and 5). The self-report questionnaire was used to gauge a psychological dimension representing consistencies in an individual’s manner of cognitive functioning.

[10] This chapter is based on the author’s published article: Wu, H. (2022). Intuition in Investment Decision-Making Across Cultures. Journal of Behavioral Finance, 23(1), 106-122. (See Appendix E)

Motivation for Investigating the Role of Intuition

To the best of my knowledge, previous research has rarely examined the use of intuition in stock market decision making within a real-life setting and from a cross-cultural perspective. Therefore, it is safe to say that, from a qualitative viewpoint, comparatively little is known about the different ways intuition manifests itself in the asset management industry in China and the West. Thus, in Study 1, I interviewed participants in this specific context using semi-structured questions and then interpreted meaning from their responses. I was strongly of the view that research into the intuitive decision making experiences of fund managers could only be approached by requesting their first-hand accounts, and that such data was unlikely to be obtained via any other means. The benefit of using a semi-structured interview or standardised non-schedule interview (Brown & Rutter, 1966; Richardson et al., 1965; Tuckett et al., 1985; Tuckett, 2011) is that it offers scope for employing the human qualities of the interviewer in the communication, which has been found to be more satisfying than a fully structured interview for both interviewer and respondent. At the same time, a certain degree of structure provides the interviewer with a topic guide based on the research issues he/she wishes to explore. The interviewer can ask questions within the parameters of this guide, and, at the same time, probe statements made by the interviewee to ensure that they understand what is being asked.

It is worth noting that, conceptually, the actual use of intuition is not always synonymous with cognitive ability or intuitive preference. Sinclair and Ashkanasy (2005) criticised the previous literature on intuition stating that, “Many studies failed to identify clearly whether they focused on intuitive predisposition, preference, ability, or actual use” (p. 359). It is therefore important to examine the intuitive process in its entirety, from the predisposition or the ability, to its actual use.

Leonard et al. (1999) found three bipolar cognitive style dimensions operating at different levels of cognitive processing. The first level was pure cognitive style, which relates to the way individuals process information. The second was decision making style, which indicates individual preferences for various

complex decision processes. The third level was decision making behaviour style, which reflects the ways individuals approach a decision situation. The first level, cognitive style, has historically referred to a psychological dimension representing consistencies in an individual's manner of cognitive functioning, particularly with respect to acquiring and processing information (Ausburn & Ausburn, 1978). For example, Messick (1976) defined cognitive style as "consistent individual differences in preferred ways of organising and processing information and experience" (p.5). Similarly, Tennant (1988) defined it as, "An individual's characteristic and consistent approach to organising and processing information." Therefore, individual differences in cognitive style have been found to be stable over time and across tasks (Witkin et al., 1977). In contrast, the use of intuition in second and third level cognitive processing appears to be dynamic and contingent on a range of specific triggers (Sinclair & Ashkanasy, 2005). To date, no study has distinguished the differences between intuitive predisposition and actual use of intuition in decision making by professional investors from different cultural backgrounds.

Therefore, in order to test hypothesis 1b regarding the first level of intuitive cognitive style, in addition to the interview study, I utilised a self-reported cognitive style questionnaire (Allinson & Hayes, 1996, 2012) to test the pure cognitive style of a group of Chinese and Western fund managers devoid of the decision making context. This test was simultaneously administered amongst the participants who were interviewed for Study 2.

The Cognitive Style Index (CSI) questionnaire developed by Allinson and Hayes (1996) is a means of measuring pure cognitive style preference. Self-reports or questionnaires are a commonly used form of assessing cognitive style (Allinson & Hayes, 1996; Paivio,1971; Riding, 1997). Within the range of self-reported instruments, the CSI developed by Allinson and Hayes (1996) is widely used by business managers due to its clearly formatted questions, ease of administration to participants, and objectively measured scoring, compared to other instruments, such as the Myers-Briggs Type Indicator (MBTI) (Myers, 1962) and Matching Familiar Figures Test (Kagan et al., 1964). The CSI has also demonstrated good reliability in regard to internal consistency, as

measured by Cronbach's alpha (Allinson & Hayes, 1996; Doucette et al., 1998; MacGillivary, 1999; Murphy et al., 1998) and test-retest reliability (Allinson & Hayes, 1996; Armstrong et al., 1997; Murphy et al., 1998). In addition, there is also growing evidence that CSI scores relate to factors that are of interest to both researchers and practitioners. Studies have found relationships between CSI scores and entrepreneurial behaviour (Allinson et al., 2000), mentor-protégé relationships (Armstrong et al., 2002), relations between supervisors and research students (Armstrong et al., 1997), group behaviour (Armstrong & Priola, 2001) and performance in management education (Armstrong, 2000).

3.2 STUDY 1: ACTUAL USE OF INTUITION IN INVESTMENT DECISION MAKING

As mentioned in section 2.4.1, Study 1 consisted of an interview study to develop hypotheses relating to cross-cultural differences in investment behaviours (hypotheses 1c – 1j). It was also used to investigate the differences in the use of intuition by Chinese and Western fund managers in their investment decision making process, as predicted in hypothesis 1a:

"Chinese fund managers tend to use intuition more than Western fund managers in their investment decision making process."

3.2.1 Participants

42 interviews were conducted by the author with 28 Chinese and 14 Western fund managers. The choice of sample size was based on the so-called saturation point: when a researcher begins to hear similar comments repeatedly (Grady, 1998).

The Chinese group included all ethnic Chinese: 27 mainland Chinese who were working in mainland China, and one Hong Kong Chinese who was working in Hong Kong at the time of interviewing. In the Western group, there were 10 British, one French, one Italian, and two American fund managers who were working in the UK at the time of interviewing.

The two groups of participants were significantly different in their investment tenures (in years): *M*=17.65, *SD*=9.15 for the Westerners, and *M* = 5.82, *SD* =4.95 for the Chinese. Age information was not collected, because tenure is a better indicator of their expertise than age. Moreover, age and tenure are normally highly correlated (Boyson, 2003).

3.2.2 Materials and Procedure

Participants were recruited in a variety of ways, including approaching fund managers at investment related conferences and seminars, via the author's personal network, through cold calling, and by contacting different financial institutions. No estimate of response rate is available.

In order to investigate the actual use of intuition in the investment process, participants were asked to recall a few examples of investment decisions they had recently made. After deciding which experience to discuss, the interviewees were taken through the process in detail using probes, e.g., (i) "How did you feel about it?" (ii) "Did you talk with anyone else?" and (iii) "How did you first find it?" This enabled a detailed delineation of the participant's thinking when making specific investment decisions. In addition, the methods of Burke and Miller (1999) were also adopted, with decision makers being asked direct questions relating to intuition, e.g., whether they used intuition, and if so, under what conditions. For the general guide used in these interviews see Appendix B.

The length of each interview ranged from between 33 to 80 minutes in duration, being on average about 45 minutes long. Interview data was recorded via shorthand notes in steno notebooks and, when possible, was also digitally recorded (for six interviews the audio recording was not permitted). Field notes and summaries were also documented after each interview. For the interviews with Chinese fund managers, data was originally recorded on site in Chinese, whereas the post-interview field notes and summaries were written in English. Translating and summarising therefore occurred simultaneously, an advantage enjoyed by the author as a bilingual researcher. The same researcher conducted all the interviews in order to maintain consistency in the method used.

3.2.3 Data Analyses

Procedure

The analytical process of investigating intuitive investment decision making included several stages, including: the initial coding and categorisation of data, writing memos, intermediate coding, selecting core categories, and identifying core themes (Birks & Mills, 2010). I also followed the recommendations of Turner (1981) who suggests keeping a second set of data records during data analysis, such as a category card. This card provides a record of categories as well as the data incidents from which the category was abstracted. A total of 210 cards were identified. Appendix C shows an example of the initial or open coding process, which was the first step of data analysis (Goulding, 2011). It provides a way to identify important words or groups of words from the data and then highlight them accordingly. Subsequently, any investment stories or comments related to the relationship between intuition and analysis were grouped together, which then formed the intermediate coding process, i.e., categories or sub-categories were linked or connected together (Birks & Mills, 2010; Strauss & Corbin, 1967).

This process led to the attainment of theoretical saturation, which is represented by a pattern or theme that makes sense to the researcher (Grady, 1998; Morse, 2007). In the current research, three themes emerged from the data, and these were further divided into 11 sub-themes. These three themes were: (i) the definition of intuition, (ii) the relationship between intuition and analysis, and (iii) investment market contextual factors (see Appendix D). The above process was conducted by the author; a second researcher blind to the purposes of the research assisted with additional reliability assessments (see below).

Reliability

I evaluated the reliability of the above analysis in terms of intra-rater (i.e., temporal) reliability and inter-rater reliability. An intra-rater reliability *P* statistic percentage test revealed 88.9% of the “first cut” emergent themes matched the final version of the categories captured two weeks later. For the inter-rated

reliability of the analyses, a second bilingual researcher blind to the purpose of the project was given the list of super-ordinate themes and sub-ordinate components along with the 42 interview notes and summaries. The inter-rater agreement was 89%. The above 80% agreement level provided assurance that the level of reliability in the coding and classification procedures was acceptably high.

3.2.4 Findings from Testing Hypothesis 1A

The findings, commentaries, and illustrative quotes are described below (numbers in parentheses 1-42, refer to participants based on the sequence in which they were interviewed). Findings are presented in terms of the three themes that emerged from the interview data (see Appendix D).

3.2.4.1 Definition of Intuition

Firstly, a larger number of Chinese fund managers (43%, n=12) showed a pronounced interest in intuition than Western fund managers (14%, n=2). The self-accounts and conceptualizations of intuition provided by participants appeared to show the affect/expertise divergence, i.e., the two defining categories for intuition found in the previous literature (Boucouvalas, 1997; Shirley & Langan-Fox, 1996; Sinclair & Ashkanasy, 2005). Among the Chinese participants who touched upon the topic of intuition (n=12), 100% stressed the importance of the sensory, affective elements of the intuitive process. Although two Chinese fund managers mentioned the importance of experience, the experience they referred to was not specific to an investment context but rather, had been acquired from living in a certain place or culture. Therefore, it appeared to relate to a holistic processing of local knowledge, or knowledge gained outside of the domain of the individual's investment expertise, which is consistent with an affect perspective of intuition. For example, a Chinese participant commented:

> "Being Chinese, I just know that the government had to take measures to do that sooner or later. It is the knowledge I have gained from living in China for over 30 years." (Chinese 9)

Western managers did not pay much attention to intuition (as revealed by the next theme). Only two Western fund managers touched upon the definition of intuition and their responses were equally divided into the two categories of affect and expertise. For example, a Western fund manager who had over 25 years of investment experience emphasised that intuition is an experience-based phenomenon that draws on tacit knowledge accumulated through experience and retrieved through pattern recognition. These findings suggest that the presence of a cross-cultural difference in defining intuition in this setting is likely.

For example, the description given by a Chinese manager about his investment process fits well with Dane and Pratt's (2007) definition of intuition as ''affectively charged judgments that arise through rapid, non-conscious and holistic associations'' (p. 40). The participant stated:

> "Investment is not something that can be described properly. It is like some arcane martial arts skills. They can only be taught by experience and meditation, rather than by words. Sometimes it is difficult to tell why I have confidence in this stock, why I think it will make money, it is not about having more information or not." (Chinese 14)

These comments resonate with the notion of intuition offered by German psychologist, Gerd Gigerenzer (2008), who writes: "Good intuitions must go beyond the information given and therefore beyond logic" (p. 104).

In addition to describing their perceptions of a sensory and affective process at work in their application of intuition, Chinese fund managers also tended to stress the involvement of a holistic processing of knowledge from beyond the investment domain. These individuals seemed to experience confirmation of the "genuine" nature of intuition through a specific feeling, such as certitude (Cappon, 1994; Petimengin-Peugeot, 1999), which could be recognised as an accompanying symptom of the intuitive process. For example, a Chinese fund manager described his intuitive thinking process in dealing with the "Euro crisis" by using his so-called "philosophical level" approach. By doing so, his prediction of an enormously complex event, which was based on very limited information, was given a sense of certitude. He reported:

> "During the Euro crisis, our thinking was that after the Lehman breakdown, we didn't think the government would allow another big crisis, and that the government would definitely come to the rescue. We were not as pessimistic as others. After a big crisis, it is very rare to have another one. This is from a philosophical level, not a micro level, as it is impossible to follow what the Germans said and what the US said. It is a philosophical approach. In terms of macro, it is very difficult to model. If you go into detail, you will be as pessimistic as others. So, it is better not to think in too much detail, such as how to achieve it and how to solve it. It is better to think from a philosophical level and think about macro. It is not model based." (Chinese 25)

Similarly, another Chinese manager obtained his sense of certitude through holistic processing by utilising his experiences of living in a particular place:

> "In 2010, I sensed that China's estate market showed some sign of weakness. Being Chinese, I just know that China's housing market is going to cool down and commodity prices are overvalued. ... I don't need to visit companies, unlike foreign managers. I just know about China. Chinese know China the best." (Chinese 9)

In contrast, the comments provided by a Western fund manager with over 25 years of investment experience resonated more closely with the second category of intuition – expertise:

> "At the moment, my practice of intuitive decision making does not happen often enough. Going forward I should use intuition more. At the moment, it is about 25%; in the future hopefully, it can reach 35% or more. Because I have enough experience, it gives me good intuition. I practise meditation, which also helps. People need to have sufficient experience in order to trust their intuition." (Western 7)

It might be misleading, however, to focus too heavily on the proponents of an experience-based perspective of intuition (e.g., Simon, 1987), as it may preclude the use of intuition among novices or those people who lack the required experience and domain-specific expertise (Behling & Eckel, 1991; Isenberg, 1984; Simon, 1987) Mintzberg (1989) and Langley et al. (1995) also argued that less experienced decision makers may also arrive at solutions intuitively by utilising an affective approach. This is shown in the findings of the current research whereby, in contrast to the more experienced Western fund

managers, the Chinese managers with shorter tenures were just as effective when using intuition as a holistic tool. Under this premise, everybody, regardless of experience and expertise, can draw on their subconscious to grasp a whole new structure. Baylor (2001) has even suggested that novices might be intuitive because they lack analytical knowledge of a subject, which would interfere with their ability to generate novel insights. Furthermore, the proponents of experience-based intuition may overly focus on the cognitive elements of the construct at the expense of the emotional or affective component of intuition. This group tends to regard emotion as detrimental to the intuitive process (Simon, 1987). Hammond et al. (1987) have cautioned, that conceptualizing intuition as "expertise frozen into habit" may reduce it to a form of "non-conscious"' analysis (Klein, 1998). Affect proponents have found that positive types of emotional response are positively related to intuitive preference (Agor, 1989). They also stress the value of knowledge from beyond the individual's domain of expertise as an important source of intuitive insight (Monsay, 1997), such as the experience of living in a specific environment as mentioned by Chinese 9.

Prejudice about these two differing notions of intuition in an individual could cause misperceptions among fund managers from different cultural backgrounds. For example, the experienced Western fund manager (Western 7) was critical about the application of intuition by Chinese fund managers. He was of the view that Chinese managers were simply too lazy (or perhaps too inexperienced) to do hard analysis. However, a Chinese fund manager (Chinese 1) thought that the reason he used his intuition was because his confidence in this approach was greater than most Western managers. We can compare the following statements:

> "Chinese fund managers do less analysis. They don't produce good excel sheets, and are too lazy to do hard analysis ... In my view, the first stage is all about solid data analysis. Then it is about intuition or other factors: meeting the management team, observing Guanxi, communication and visits. If you don't get analysis right, you just have not done your job. If you get intuition wrong, then it is a different matter. It's perhaps called the Western way of thinking, which is more forgivable." (Western 7)

> "I think that my intuition about the market and market changes is better than my British colleagues. However, I can be more easily influenced by market noises or other people's views than my British colleagues. Chinese people are good at feeling the market consensus; on the other hand, Chinese people tend to be more prone to herd behaviours than their Western peers. People in the West are more likely to be independent thinkers than those in China." (Chinese 1)

In summary, the findings from these interviews showed that in their use of intuition, Chinese fund managers stressed the importance of feeling or emotion, while Western fund managers focused on past professional experience and expertise, supporting the view that cross-cultural differences in the definition of intuition reflect an affect/expertise divergence. This variance may be related to differences in external factors such as the investment experience of the two different groups. Internal factors, such as those highlighted in the comment by Chinese 1, may also have an impact as Chinese fund managers may be genuinely good at affective processing and therefore naturally tend to rely on emotion when utilising intuition.

3.2.4.2 Relationship Between Intuition and Analysis

Similarly, more Chinese fund managers (89%, n=17) seamlessly integrated intuition with analysis during the investment process than Western fund managers (50%, n=4). Among the Chinese participants who commented on the use of intuition in investment (n=19), most Chinese fund managers (89%, n=17) tended to use intuition in their investment process and within this group, the majority (82%, n=14) used intuition in tandem with analysis (see Appendix D). For example, a Chinese participant commented:

> "The decision to purchase stocks is purely based on logical analysis. However, the timing of when to buy is more related to intuition." (Chinese 8)

In contrast, among the Western participants who commented on the use of intuition in investment (n=8), half of the Western fund managers (50%, n=4) revealed the tension between intuition and analysis, and they therefore tended to reject it because "our whole investment process is intended to get rid of intuition" (Western 23). For the remainder of Western fund managers who used

intuition (50%, n=4), all of them (100%, n=4) combined it with analysis in varying degrees. In other words, intuition and analysis could occur simultaneously, with the amount of intuition suggested by percentage. For example, a Western participant stated:

> "At the moment, my practice of intuitive decision making does not happen often enough. Going forward I should use intuition more. At the moment, it is about 25%; in the future, hopefully it can reach 35% or more." (Western 7)

This suggests the presence of two different patterns in the use of intuition among the Chinese and Western fund managers. When asked about the roles of intuition and analytical reasoning, Western fund managers tended to offer statistics, while Chinese managers tended to explicate real-life situations. This contrasting response could be due to cognitive differences between the Chinese and Westerners, as past research has found that Westerners are better at probability thinking and judgement than the Chinese (Wright & Phillips, 1980). It may also be explained by an external factor - the difference in length of investment tenure between the two groups. In other words, the Chinese fund managers, who tended to report shorter tenures, may lack necessary expertise or experiences in analysing data and may therefore entirely rely on intuition in certain situations, e.g., identifying the right time to purchase a particular stock (Chinese 8) or finding the right sector from an investment universe (Chinese 2).

3.2.4.3 Market Contextual Factors

Chinese participants were acutely aware of the effects of investment market contextual factors on their individual intuitive decision making. The list below highlights six reasons given by the Chinese fund managers that intuition may be more useful than analysis:

1. "Due to a lack of transparency in the Chinese markets, very often sudden news is announced, or a surprising event occurs, which requires quick judgement and reaction. In these situations, intuition and feeling would be more useful than rational analysis." (Chinese 2)

2. “The Chinese markets are irrational, emotional, and immature.” (Chinese 5)
3. “There are many retail investors in the Chinese markets, so professional fund managers have to adopt the mentality of retail investors and do less analysis.” (Chinese 9)
4. “There are many hidden rules in the Chinese markets and therefore very often data analysis does not work.” (Chinese 5)
5. “Companies in the Chinese markets are not very well developed.” (Chinese 1)
6. “Information at the markets is sketchy, not accurate.” (Chinese 1)

3.2.4.4 Summary of Findings

In summary, evidence from the interview process in Study 1 highlighted differences in the definition of intuition used by Chinese and Western fund managers. Chinese fund managers focused on the emotional elements of intuition, while Western fund managers concentrated on experience. When asked to describe the role of intuition, the Chinese tended to describe real-life situations when they actively used intuition, whereas Western participants preferred to offer a percentage of how much intuition they used. Overall, the Chinese managers used intuition more regularly than Western fund managers in their investment process, which could be due to market contextual factors as shown in the interview data. Thus, hypothesis 1a was found to be supported. This finding raises an interesting question – to what extent is the use of intuition a variable of investment experiences and market contextual factors, rather than cultural differences expressed through preferences in cognitive style? This question will be addressed via the use of cognitive preference tests in Study 2.

3.3 STUDY 2: INTUITIVE PREDISPOSITION

Study 1 showed that Chinese fund managers were more likely than Western fund managers to use intuition in their investment process. Study 2 was established to test hypothesis 1b regarding the pure cognitive preference of both groups of participants to discover if there are noticeable differences in cognitive style across cultures within this context.

Hypothesis 1b: Chinese fund managers are generally more intuitive in their cognitive style than Western fund managers.

3.3.1 Participants

The complete data set comprised 30 fund managers from two cultural groups: mainland China and the West (four nations were represented). Participants in the Cognitive Style Index test were also interviewees in Study 2 (see section 4.2.1. for more detailed information about this study).

In a similar manner to the interview study (Study 1), the majority of Chinese participants (60%) in the cognitive test study (Study 2) had fewer than five years of investment experience. In contrast, the majority of Western participants (73%) had more than five years of investment experience.

3.3.2 Materials and Procedure

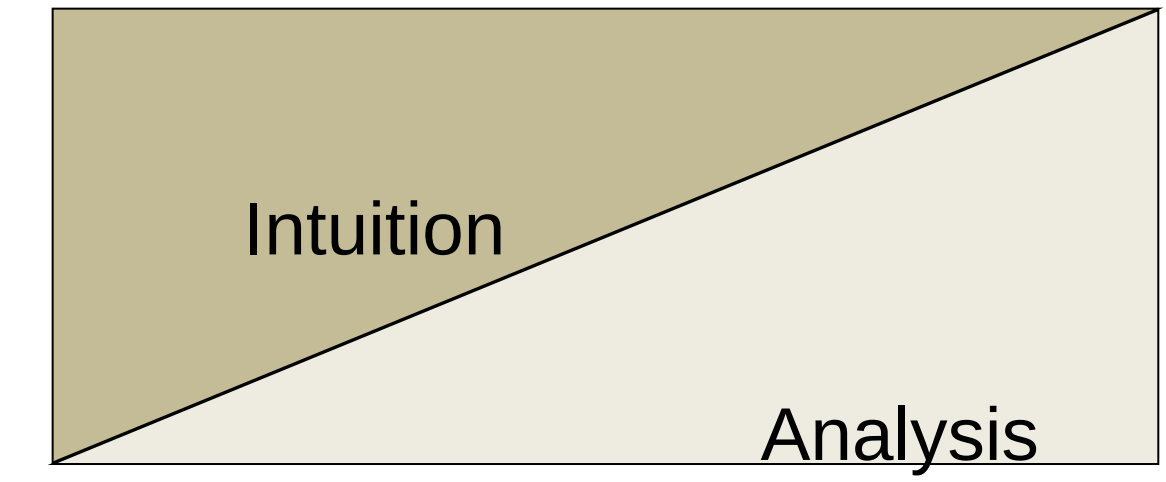
As we observed in Study 1, Chinese fund managers were found to be more likely to use intuition in their investment decision making; they also regarded intuition to be more important than their Western counterparts. However, the responses provided by the fund managers in the earlier study were likely to reflect the ways they approached a specific decision making situation, which, in relating to market contextual factors, could be highly influenced by the demands of the task at hand. Simultaneously, they might exhibit a different dominant or preferred thinking style. Thus, gauging the difference in intuitive predisposition or pure cognitive style between the Chinese and Western fund managers required the use of a measure which was without the constraint of the decision making context. Based on this rationale, I selected the Cognitive Style Index (CSI) questionnaire to specifically test cognitive style preference in Study 2. This self-report measure developed by Allinson and Hayes (1996 and 2012) assesses the intuitive-analytic dimension of the subject's cognitive process.

The final version of the CSI which was used in this research consisted of 38 question items, which were derived from 18 of the dimensions related to cognitive style from the literature search (Allinson & Hayes, 1996). Items were

placed in random order on the final form. Some examples are as follows: (i) “Formal plans are more of a hindrance than a help in my work”, (ii) ‘I am most effective when my work involves a clear sequence of tasks to be performed”, (iii) “My philosophy is that it is better to be safe than risk being sorry”, and (iv) “I am inclined to scan through reports rather than read them in detail”.

Each of the 38 items had a true-uncertain-false response mode, and scores of 2, 1 or 0 were assigned to each response, with the direction of scoring being dependent upon the polarity of the item (17 items having been reversed to control for acquiescence response bias). The nearer the total score to the theoretical maximum of 76, the more analytical the respondent. On the other hand, the nearer the total score to the theoretical minimum of zero, the more intuitive the respondent. Whereas some individuals may be wholly intuitive or wholly analytical, the majority of individuals will have a preference for processing information through both intuition and analysis. As shown in Figure 3 (see page 100), the “adaptive” style sits in the middle of the spectrum between “intuitive” and “analyst”, as it blends the two cognitive modes. As defined by Allinson and Hayes (2012), “Adaptors do not have a strong preference for either intuitive or analytic modes of information processing. They are comfortable drawing on both, in whatever combination seems appropriate at the time, in order to improve their understanding of a situation and make decisions about how to act” (p.4). The “quasi-intuitive” and “quasi-analyst” styles imply a tendency towards, but not the full adoption of, one of the more extreme cognitive modes.

Figure 3: The Intuitive-Analytical Dimension of Cognitive Style



(Source: Allinson & Hayes, 2012)

A trichotomous true-uncertain-false response mode for each of the 38 items provided a central category for subjects who wished to indicate genuine uncertainty on the grounds that the extreme categories did not apply consistently. It also overcame the problem associated with Likert scales of five or more points, that some subjects tend toward extremes while others habitually avoid them (Kline, 1993).

The original CSI questionnaire was created in English. In order to administer it among the Chinese fund managers it was necessary to translate it into a Chinese version, using a back translation procedure. Therefore, it was first translated into Chinese by the author and then another bilingual researcher translated the Chinese version back into English to ensure that the full meaning

and intent of the questions was retained. If there was any discrepancy against the original English version, the author made changes accordingly. This process was repeated twice in order to produce the final Chinese version.

3.3.3 Findings from Testing Hypothesis 1B

T-test results showed that although the mean score for the Chinese fund managers (*M*=45.87, *SD*=10.50) was higher than the mean score for the Western fund managers (*M*=40.27, *SD*=13.04) which implies that the Chinese participants were more analytical than the Westerners, the difference is not statistically significant: $t(28) = 1.30$, $p=.21$ Thus, at the pure cognitive style level, i.e., context-general level, Chinese fund managers are not more intuitive than Western fund managers, which is in stark contrast with the findings from the interview study in Study 1 that showed that Chinese participants are more intuitive in their investment decision making, i.e., context-specific level. In other words, hypothesis 1a regarding intuitive investment decision making was supported by the interview data in Study 1, while hypothesis 1b regarding intuitive cognitive style was not supported by the questionnaire data in Study 2.

3.4 DISCUSSION

I compared the results of the questionnaires in Study 2 with the findings of other studies in which similar measures had been used, i.e., non-context-based self-report questionnaires. The outcome of the current study was found to be consistent with conclusions drawn by this other research, which also did not support the idea of a traditional dichotomy between an intuitive East and an analytic West. For example, using the CSI measure, Allinson and Hayes (2000) discovered that the most intuitive corporate managers were located in the Anglo and North European categories and the most analytic were in the Developing Countries and Arab categories. They therefore concluded that intuitive preference is more strongly determined by the stage of industrial development of a country than by cultural tradition. Similarly, Phelps and Krabuanrat (1999) administered the CSI to 466 corporate managers and found higher average rationality scores for the Asian managers compared with previous samples of Western managers. They suggested that the dichotomy

between an intuitive East and an analytic West was due to a misperception, which emphasises occasional non-rational decision making behaviour specific to Asian managers by concentrating on the exceptions rather than the norm. For example, in their study, some Asian managers would seek the advice of a fortune-teller in reaching a decision. The researchers argued that although such apparently irrational processes provide colourful stories (because they are so different to established Western practice), concentrating on these specific occurrences rather than on the broader picture creates an exaggerated impression of intuitive decision making in Asian firms.

In addition to this explanation, I would like to suggest an additional cause for such findings that run contrary to the traditional dichotomy. The inconsistency between findings from different studies of intuition may also be due to the specific samples used in those studies. Traditional cultural studies have tended to refer to the general population or, in some cases, to scientific or religious groups in mainland China, from a historical perspective (e.g., Needham, 1962). In the experiments of cultural psychologists (e.g., Ji et al., 2000; Masuda & Nisbett, 2001; Park et al., 1999), participants were commonly university students, often those majoring in psychology. In contrast, the participants in the research studies using CSI were specific groups in the population, from corporate managers, lawyers, MBA students, engineers and, in the case of the current study, investment fund managers. These groups are often characterised by having both a good education and sophisticated training in analytical skills. In my study, for example, all the Chinese fund managers had a master's degree in economics, finance or science related subjects, all of which have highly analytical curricular. Fund managers who attended Chinese universities may also have been taught "Western" methods of finance and investing because, as far as the author is aware, there is no competing Chinese or Asian technique in finance or economics. Past research (e.g., Choi et al., 2007; Ramsden & Entwistle, 1981; Schmeck, 1988) has shown a close connection between educational environment and cognitive style. For example, Choi et al. (2007) found Korean students of oriental medicine scored higher on the Analysis-Holism Scale than Korean students of non-oriental medicine.

It could therefore be argued that the results of these CSI studies need not necessarily contradict the traditional dichotomy of an intuitive East and an analytic West. It is possible that as a general population, the Chinese are more intuitive than those from the West. However, with a specific population group, such as investment fund managers, who form a highly analytical group within the wider population, the effects of education and training may outweigh cultural influences, resulting in a very rational style of thinking regardless of inherited background.

3.5 CONCLUSION

The data collected in the current research provides detailed descriptions of the phenomenon of intuition by a group of participants within a cross-cultural context. As stated in the rationale for these studies, although extant research provides surface level descriptions (e.g., Agor, 1989), correlational analyses of relationships between quantifiable variables (e.g., Khatri & Ng, 2000), and compelling accounts of intuitive judgement in complex, time-pressured situations outside of business management (e.g., Klein, 1998), little qualitative research that attempts to describe and explain intuition in the financial sectors (for two examples, see Hensman & Sadler-Smith, 2011; Lipshitz & Shulimovitz, 2007) has been published. Furthermore, to date, no study has combined qualitative accounts of the use of intuition in the financial sectors alongside testing for cognitive style using self-reported measures. Given the complexity of intuition as a concept, Sinclair and Ashkanasy (2005) proposed that a comprehensive measurement of intuition cannot be achieved by means of a single tool, and that a cautious approach should be employed, in the spirit of “triangulation” (see Jick, 1979). Their approach recommends utilising a combination of measures with each tapping into a different facet of intuition. In the current research, I incorporated this scheme using a methodology of both qualitative interviewing and self-report questionnaire. In so doing, I aimed to present a more nuanced and detailed understanding of the workings of intuition, over-and-above the picture provided by descriptive surveys and correlational analyses in order to complement the extant body of research.

The findings of this research reflect two different levels of cognitive processing, including context-general cognitive style - which relates to the way individuals process information - and context-specific decision making behaviour style - which reflects the ways individuals approach a decision making situation. As noted by Leonard et al. (1999), “Individuals may have a dominant or preferred decision making style, but their decision making behaviours are influenced by the demands of the situation or task” (p.419) The data collected by interview in Study 1 revealed that Chinese fund managers tended to use intuition more often than Western fund managers during the investment decision making process. Simon (1987) has suggested that the choice of decision making style is determined by dispositional and contextual factors. Because Chinese and Western fund managers were found not to be significantly different in their cognitive preference for intuition in Study 2, it is therefore concluded that differences in using intuition during the investment decision making process relate more to contextual factors than cognitive factors. In the model developed by Sinclair and Ashkanasy (2005) there are four broad categories of factors that can affect decision making behaviour: (i) problem characteristics, (ii) decision characteristics, (iii) personal disposition, and (iv) decision making context. Therefore, the use of intuition appears to be a dynamic process, contingent on a range of specific triggers. The conclusion of this research, that intuitive judgement is embedded in the organisational and social context, also resonates with the views expressed by Huff et al. (2006) who noted that strategic decision makers require an abundance of tacit knowledge, intuitive judgement, social competences and a deep understanding of the local context.

The contextual factors in Chinese markets (such as irrational retail investors, sketchy information, and accounting fraud) may be a source of contextual signals, which affirm for individuals that they share the same assumptions. These contextual signals may reflect conventions, defined as a self-sustaining “social arrangement which allows people to cooperate with each other”, and which are difficult to replace (Boyer & Orlean, 1992, p. 166). For example, as a coping strategy for the over-abundance of retail investors in Chinese markets, a professional fund manager (Chinese 9) was forced to adopt a retail investor mentality, i.e., to carry out less analysis.

To conclude, hypothesis 1a - that Chinese fund managers tended to use intuition more often than Western fund managers during the investment decision making process was found to be supported by the interview study (Study 1). However, hypothesis 1b - that Chinese fund managers are generally more intuitive in their cognitive style than Western fund managers was not supported, because they were not significantly different in their preference for intuition in the cognitive style index tests. Thus, it seems that differences in using intuition during the investment decision making process relates more to contextual factors (in the current case investment decision making context), rather than cognitive factors. Finally, by showing that the actual use of intuition is not always synonymous with cognitive ability or intuitive preference, the current project adds credence to the importance of identifying different levels of intuitive cognitive process in future research, as proposed by Sinclair and Ashkanasy (2005).

3.6 LIMITATIONS AND FUTURE DIRECTIONS

The research on intuition in the current chapter was subject to a number of limitations. Firstly, in the current research, only two cultural groups were examined, with study participants representing China and the West. Although this work of comparison is richly informative and important, the generalizability of these findings to other cultural groups may be limited. A potential direction for future research might be to explore a more diverse set of national cultures as well as differences within regional boundaries. This limitation is relevant for the whole thesis. Secondly, in common with Hensman and Sadler-Smith (2011), the data was derived from a relatively small sample, although it is arguable that the unit of analysis was not the participants per se, but their tenured experience, which was very high – the research total being over 300 years. Being comprised of retrospective accounts and personal perceptions about investment decisions, the data was also subject to the general limitations of such investigations irrespective of sample size. Thirdly, the coding and interpretation of the textural data was a subjective process and therefore prone to bias. Attempts were made to ameliorate the potential effects of this through the use of multiple researchers and a quantitative assessment of the reliability of the coding procedures.

The results reported here raise a number of questions which future research might find valuable to address: (i) are experienced fund managers (e.g., those with more than 10 years of domain-relevant learning) less likely to have greater self-belief in the effectiveness of their intuitive decision making than less experienced fund managers? (ii) to what extent is the relationship between a decision makers' accrued experience in their role and their feeling of intuitive certitude mediated by their level of education or cognitive style preference? (iii) are decisions that are based on gut-feelings more acceptable in market contexts which are relatively emergent, less mature and less regulated?

CHAPTER 4: Non-State Related Analysis in the Investment Decision Making Process (Research Question 1)

4.1 INTRODUCTION

The aim of this chapter is to explore the cultural differences in investment behaviours wherein attitude toward the state is less of a concern, i.e., non-state related hypotheses (1c - 1h). Differences in these behaviours between Chinese and Western fund managers were indicated in Study 1; they include: (i) attention to macroeconomic information (hypothesis 1c), (ii) preference for a top-down investment approach (hypothesis 1d), (iii) holding period of stocks in general and loss-making stocks in particular (hypotheses 1e and 1f), (iv) management evaluation (hypothesis 1g), and (v) preciseness of investment procedure (hypothesis 1h). Following Study 1, a similar interview method was employed in Study 2, but using a different set of participants. A more vigorous data analytical approach was also applied to test these hypotheses. A survey method was then adopted in Study 3 to examine if significant differences in these investment behaviours could be again found between Chinese and Western fund managers in order to strengthen the validity of the findings from Study 2.

There has been little previous qualitative research conducted with fund managers about their investment experiences within a cross-cultural and integrated framework. Previous studies have explored the relationship between cultural values and investment outcomes across different cultures, but these have often only utilised quantitative methods, thus they essentially rely solely on cultural values as an explanatory variable at the expense of other important contextual factors (e.g., Chui et al., 2010; Schmeling, 2009). One exception to this is a study conducted by Phelps and Krabuanrat (1999) who interviewed 40 corporate managers in Thailand about their major strategic decisions, such as expansion into new markets or forming alliances. Phelps and Krabuanrat (1999) found that the decision process of Asian managers makes use of a mixture of rational analysis and subjective heuristics but tends toward a relatively rational approach. Phelps and Krabuanrat's (1999) study did not directly compare Asian managers with Western managers and the

decisions studied were related to broad management rather than equity investment. Indeed, few studies have specifically explored cross-cultural differences in investment decision making using qualitative interview techniques.

Qualitative interview studies exploring investment decision making from a Western rather than cross-cultural perspective do exist (e.g., Coleman, 2015; Tuckett, 2011). In Tuckett (2011) and Coleman's (2015) studies, the fund managers interviewed reported a limited use of standard finance theory and acknowledged constraints by their social context, such as clients or employer. Self-report studies have also been conducted to explore fund managers' investment decision making process within a Western cultural framework. Arnswald (2001) administered a survey amongst German equity fund managers, and Agache (2001) surveyed European equity managers. They found Western fund managers' stock screening process to be more bottom-up than top-down. For example, in Arnswald's (2001) study in which German fund managers were asked to describe their funds, the results of the survey question related to bottom-up and top-down analysis showed that the mean for bottom-up analysis was 3.72, in comparison to the mean for top-down analysis, which was 2.13 on a scale from 0 (irrelevant) to 5 (plays dominant role).

Researchers have also examined the differences in attention paid to macro and micro information by fund managers during decision making, but, again, based on a Western sample only. Kacperczyk et al. (2016) developed a rational attention allocation model to observe whether fund managers choose to acquire macro or firm specific information before making investment decisions. In their study, however, all the participants ultimately acquire the same information. In contrast, the results of a very recent paper by Glasserman and Mamaysky (2016) have shown that investors endogenously opt to specialize in either macro or micro information. The investors they studied were observed to be ex ante identical - once they incur the cost of becoming informed, they are free to choose general combinations of signals, yet, in

equilibrium, they concentrate in two groups: macro- and micro-informed investors.

Overall, it seems that there has been a paucity of qualitative cross-cultural research exploring the decision making process of fund managers. As financial markets become increasingly globalised, fund managers are more likely to invest in markets outside of their domestic country and therefore to compete with native fund managers. Indeed, from my interviews with Chinese and Western participants, I found that all the fund managers showed a keen interest in knowing more about how their counterparts from different cultures operated. Thus, the application of qualitative (Study 2) and survey studies (Study 3) conducted with fund managers from different cultural backgrounds about their investment decision making process could crucially help to address this gap in the literature by shedding light on differences in their behaviour in relation to the following: (i) attention to macroeconomic information (hypothesis 1c), (ii) preference for a top-down investment approach (hypothesis 1d), (iii) holding period of stocks in general and loss-making stocks in particular (hypotheses 1e and 1f), (iv) management evaluation (hypothesis 1g), and (v) investment procedure (hypothesis 1h). This could also help to address the limitations of previous research in this area (Karolyi, 2016).

4.2 STUDY 2: SEMI-STRUCTURED INTERVIEWS

As an investigation, Study 2 was employed to test the first group of hypotheses, 1c – 1e, 1g and 1h regarding non-state related information analysis (as described in the current chapter), and 1i and 1j regarding state related information analysis (see Chapter 5). These hypotheses predicted that Chinese and Western fund managers would show differences in their investment behaviours during decision making. Data was collected using a qualitative interview method.

4.2.1 Participants

The complete data set was comprised of 30 fund managers from two cultural groups: mainland China and the West (four nations were represented). Individuals participating in Study 2 were different from those participating in

Study 1, to avoid a participant taking part in both studies. Data was collected by the author between May 2015 and December 2016. Demographic information for investment tenure, gender, assets under management (AUM), nationality of the fund they were actively working, and highest level of education were selected for analysis. Investment tenure was selected for analysis rather than age because tenure is a more significant factor here (Boyson, 2003). Details of sample sizes and the demographic characteristics used in the present analyses are displayed in Table 2 below.

Table 2: Study 2 - Sample Characteristics

Culture Group	Gender	Natonality	Ethnicity	Nationality of Fund	Mean Tenure (Years)	Mean AUM (USD Million)	Education (Highest Degree)
China	Male (n=15)	China (n=15)	Mainland Chinese	China	6.94 (SD=6.68)	271 (SD=291)	Masters in Finance-Related Subjects
West	Male (n=15)	UK (N=11); US (N=2); France (N=1); Spain (N=1)	White European	UK & US	13.2 (SD=9.15)	13,650 (SD=32,047)	Masters (N=5); BA (N= 8) ; High School (N=2)

4.2.2 Materials and Procedure

Participants were recruited in a variety of ways, including approaching fund managers at investment related conferences and seminars, via the author's personal network, through cold calling, and by contacting different financial institutions. No estimate of response rate is available.

Interviews with Chinese fund managers took place in the fund managers' offices in China (Beijing or Shanghai). Similarly, interviews with most Western fund managers took place in their London-based offices, with a few exceptions (two interviews were held in quiet café shops in central London and one interview took place remotely via telephone as the fund manager was based in Hong Kong). All but one interview (with a Chinese fund manager) were carried out on a one-to-one basis for the purpose of confidentiality and also to establish a rapport between interviewer and interviewee. The only interview that was carried out in the presence of a fund manager's colleague led to a very interesting result regarding their attitude to the Chinese state, which will be discussed in Chapter 5.

Participants were asked to recall a few examples of investment decisions they had recently made, especially regarding the purchase of stocks from Chinese companies. By doing so, I intended to compare fund managers' decision making process when investing in similar stocks. Questions were organized to gain an initial general understanding of a participant's investment background, such as "When did you first hold portfolio management responsibility?" and "What are your formal qualifications and cultural background?" The researcher then requested a more detailed delineation of the fund managers' thought processes when making specific investment decisions. These initial questions allowed each decision maker to progress through the discussion and express himself in a relatively relaxed way.

All respondents were then asked common questions and probed in a similar manner (for the general guide used in these interviews see Appendix F). This type of general guide does not restrict the researcher or respondents to a fixed set of questions, as it allows researchers to frame questions in a way that suits the different participants. This interview method is thus advantageous in investigating complex processes such as decision making; the contextually grounded language of the interviews provided a level playing field among all the participants as they had an equal chance to answer questions and to understand the research questions. In contrast, during the survey questionnaire, participants were asked an identical set of questions. Asking the participants the same question does not imply that the question has an equal opportunity to be answered, because the participants may have different cultural and educational backgrounds, therefore the same question may have different levels or different meanings to them. Furthermore, compared with questionnaires, interviews encourage a rapport to develop so that interviewees think and talk about things beyond surface opinion; thus, they are less likely to offer rationalisations. At the same time, the interviewer is able to follow up issues with further questions (Gaskell, 2000, pp. 45–46).

Examples of questions related to the testing of hypotheses include:

- "Can you tell me about two very satisfying purchasing investment decisions regarding Chinese companies from the past two years? I am

interested to know how you came across this investment, how you analysed it, and what factors you think are the most important?"

- "What are your four most recent purchasing decisions regarding Chinese companies? Can you walk me through the process?"
- "How large is your investment universe, and how do you screen those stocks? What factors are involved?"
- "Can you give a sense of the importance between firm specific information and macro information?"

The length of each interview ranged from between 37 to 161 minutes in duration, being on average about 66 minutes. Interview data was recorded via shorthand notes in steno notebooks and was also digitally recorded when possible (for one interview audio recording was not permitted). I conducted all the interviews in order to maintain consistency in the method used. Interviews were transcribed and in the case of the Chinese interviews, translated to English by the author. For the Chinese interviews therefore, translation and transcription occurred simultaneously, an advantage of the author being bilingual. A second bilingual researcher randomly checked 30% of interview transcriptions and found no major errors. Please refer to section 1.6 *Ethical Considerations* for full information on research ethics.

4.2.3 Data Analysis

Rating Procedure

In order to examine cultural differences in the investment decision making process as predicted in hypotheses 1c – 1h (i.e., "How do fund managers from China and the West differ in their decision making process?"), the qualitative interview data was transformed into quantitative scales based on a rating book specifically created for this study, the so-called "quantizing qualitative data" method (Sandelowski et al., 2009). The items in the rating book were based on qualitative interviews from Study 1, that is, before the rating process (Brown, 2002). By transforming the interview data, the qualitative data could be statistically analysed. The rating book included five four-item hierarchical rating scales for five hypotheses (hypothesis 1c, 1d, 1e, 1g, and 1h) respectively. Table 3 (see page 113) illustrates an example related to

hypothesis 1c (for all rating tables as well as randomly drawn examples of rating analysis see Appendix H).

This approach has some of the features of the method adopted by Brown (2002), in which emphases were placed not only on what the interviewee said, but how he/she said it, i.e., emotion expressed in the interview itself. For example, when rating a fund manager's attention to macroeconomic information, the researcher would take into account the emotion expressed when a situation is described, how long the descriptions take, and so on. This type of approach also considers a range of contextual information. For example, rating a fund managers' holding period requires a more holistic approach, with the researcher assessing several indicators from the interview data, such as the holding periods of the largest holding stock, the attitude towards the loss of stocks, and the general view of time horizon for investment, etc. These examples illustrate the strength of this type of rating approach because the procedure enables the researcher to be sensitive to the dynamics of investment decision making.

The process of transforming the interview data into rating scores is fully documented (over 2000 pages of qualitative data were collected) and is available upon request (for randomly drawn examples see Appendix H).

Table 3: Differences in Attention Paid to Macroeconomic Information by Fund Managers During the Decision Making Process

Scale	Definition
4	A manager rated "4" paid a lot of attention to macro analysis and to finding a growing sector, but he/she also mentioned one or two factors related to firm-specific information. (Equal or above 80%-100% macro factors)
3	A manager rated "3" gave equal weight to both firm-specific information and macro/sector information. The investment examples show that the purchasing rationales have an equal number of factors from both aspects. (Equal or above 50% and less than 80% macro factors)
2	For a manager rated "2", most of his/her analysis related to firm-specific factors, but only one or two factors were related to macro/sector. (Above 0 and less than 50% macro factors)
1	A manager rated "1" did not mention sectoral information at all. Analysis only involved the financial health of a firm. (0%)

Reliability

The reliability of the above rating scores was evaluated by inter-rater agreement. A second researcher blind to the purpose of the project randomly drew 30% of the interview material and rated it independently according to the rating book. The value of intra-class correlation coefficient (ICC) (Fisher, 1954) was calculated in order to assess consistency or conformity between two quantitative measurements from two researchers. Although there is no standard threshold, an ICC of higher than 0.5 is generally considered an "acceptable" level of agreement among raters. For example, Fleiss (1986) suggested that an ICC between 0.40 and 0.75 is "fair to good". Koo and Li (2016) summarized that in published studies an ICC of between 0.5 and 0.75 indicates moderate reliability, an ICC between 0.75 and 0.9 indicates good reliability, and an ICC greater than 0.90 indicates excellent reliability. In the current study, ICC values on all five rating schemes (hypotheses 1c, 1d, 1e, 1g, and 1h) were above 0.5, indicating an acceptable level of agreement. In particular, the ICC for the overall agreement was 0.87 which indicates good agreement between the raters.

4.2.4 Findings

In order to preserve a meaningful order among the response categories, rating scales in the current study were treated as continuous variables (Beauducel & Herzberg, 2006). Therefore, analysis of covariance (ANCOVA) was used to examine hypothesized cultural differences while controlling possible confounding effect of demographic variables.

First, analyses were conducted to test for the possible confounding effect of two demographic variables including investment tenure and the amount of assets under management (AUM), as they might be included as covariates in the later ANCOVA tests. These two variables were selected because during the interview data collection process these factors were often mentioned by fund managers as impacting investment decision making. The investment tenure for Chinese fund managers (M=83.33 months, SD=80.1) was found to be significantly shorter than for Western fund managers (M=158.4, SD=109.82), t (28) = -2.14, p=.001. In contrast, AUM (M=271 in USD millions,

SD=291 for Chinese fund managers and *M*=13,650 in USD millions, *SD*=32,046 for Western fund managers) was found to be not significantly different, *t* (27) = -1.62, *p*=.12. However, since differences in AUM seemed significant if without outliers, it was still controlled for in the subsequent ANCOVA tests.

In conducting ANCOVA tests, the cultural group (Chinese or Western) was treated as the independent variable, whereas five investment behaviours were treated as dependent variables, respectively. In support of all five hypotheses (1c, 1d, 1e, 1g, and 1h), the results show that between the two cultural groups, five investment behaviours differ significantly from the directions predicted, even after differences in investment tenure and AUM were controlled for (see Table 4, below).

Table 4: Results of Five ANCOVA Tests for Hypotheses 1c, 1d, 1e, 1g and 1h After Controlling for the Effects of Investment Tenures and AUM

Hypotheses	Cultural Group										
	Chinese			Western							
	M	*SD*	*n*	*M*	*SD*	*n*	*df*	*F*	*p*	Partial Eta Squared	
Hypothesis 1c_Macroeconomic Information	2.87	.52	15	2.29	.47	14	1,25	9.68	.005	.279	***
Hypothesis 1d_Top-Down Approach	3.73	.46	15	2.36	.74	14	1,25	33.07	.000	.569	****
Hypothesis 1e_Average Holding Period	2.20	1.01	15	3.64	.74	14	1,25	10.38	.004	.293	***
Hypothesis 1g_Management Evaluation	2.93	1.27	14	1.64	.93	14	1,24	6.21	.020	.206	**
Hypothesis 1h_Investment Procedure	2.33	.82	15	3.36	.74	14	1,25	10.28	.004	.291	***

**p < .05
***p < .01
****p < .001

4.3 STUDY 3: LARGE-SCALE SURVEY

In order to retest the significance of the five original hypotheses (1c, 1d, 1e, 1g and 1h) supported by Study 2, in Study 3, a different method was used with a larger sample in a more diverse market context. Furthermore, in addition to the average holding period posited in hypothesis 1e, additional interest arose relating to fund managers' holding period for loss-making stocks. Therefore, hypothesis 1f (attitude to losing stocks) was also investigated in Study 3. A difference between Studies 2 and 3 which is well worth noting is that, for comparison purposes, during the interviews for Study 2, both groups were asked to describe their decision making process when investing in the stocks

of Chinese companies. The decisions reported were therefore representative of those made within the same market context, i.e., the Chinese capital markets. In contrast, the survey questions used in Study 3 were designed to examine decisions fund managers had made regarding their majority portfolio holdings. Again, almost all the Chinese investors (with one exception) were exclusively investing in Chinese markets. In contrast, about 80% of Western participants were mainly investing in Western markets. Suffice to say, Study 3 sought to compare investment decision making within the context of fund managers' domestic markets, i.e., Chinese and Western markets respectively. According to the literature review (see Chapter 2), these two market contexts have considerable differences. Thus, the current research adopted a typical mixed-method (i.e., including both qualitative interviews and a quantitative survey) to overcome the likely biases stemming from single methodologies, and to support "in-depth understanding" (Denzin, 1989, p.246). In attempting to verify the results of the qualitative study, the aim of the survey in Study 3 was to find an equivalent pattern of results with a new set of participants, which would indicate that the original results were not limited to the specific context in which they were observed (Bak, 2011).

4.3.1 Participants

The complete data set was comprised of 187 fund managers from two cultural groups: mainland China (*N*=102) and the West (*N*=85). Regarding sample size, my decision was based on the desired statistical testing power. Jonas et al. (2009) illustrated a small/medium effect size for the main effect of culture (*d*s=.33-.61), while House et al. (2004) found an effect size of 0.55 for institutional collectivism between China and the US. If a medium effect size of 0.5 is assumed, then for the independent *t*-test a sample size of 65 for each group is required to reach the power of 0.81. A sample size of 100 participants in each group will increase the power to 0.94. In the current project, according to G-power calculation (Faul et al., 2009), the sample size of 102 versus 85 achieved a testing power of 0.92.

Demographic information such as gender, ethnicity, location of the investment companies' headquarters, investment tenure, and education are presented in

Table 5 below. Investment tenure was selected for analysis rather than age because in this case tenure is a more significant factor (Boyson, 2003).

Table 5: Study 3 - Sample Characteristics

Culture Group	N	Gender	Natonality	Ethnicity	Headquarters of Fund	Mean Tenure (Years)	Education (Highest Degree)	Majors	Market Context
China	102	Male (N=82) Female (N=16) No information (N=4)	Mainland Chinese	Mainland Chinese	China (N=97) Others (N=5)	5.96 (SD=4.10)	BA (N=6) MA (N=65) PhD (N=26) NA (N=5)	Finance related (N= 98) Others (N=4)	China (N=101) Others (N=1)
West	85	Male (N=77) Female (N=6) No information (N=2)	British (N=58); American (N=3); West European (N=20) British Asians (N=4)	White European	UK (N=49) US & Canada (N=10) West Europe (N=16) Others (N=10)	14.09 (SD=9.73)	BA (N=40) MA(N=38) PhD (N=5) NA (N=2)	Finance related (N=70) Others (N=15)	West (N=68) Others (N=17)

4.3.2 Procedure

The pretested, self-administered and structured survey was created in English and was translated into Chinese following the back-translation method (Brislin, 1970). The principal criteria for the selection of the sample of respondents were cultural background (Mainland Chinese or White European) and equity investment experience (minimum two years of portfolio management responsibility). To this end, data was collected in two different cultural regions. Given the difficulty in accessing sampling frames for probability samples in social science research (Pedhazur & Schmelkin, 1991), a purposeful sampling approach was used. This approach relied on the judgement of the researcher to select potential respondents who satisfied the criteria. In China, the survey was mostly circulated via local assistants from a Chinese financial news outlet to fund managers who were among their clients.

The selection of Western participants was complex as there was more than one country involved. The business orientated social network “LinkedIn” was used as the main means of recruiting Western participants. Individuals involved in equity investment and with the title of “fund manager” or “portfolio manager” who were located in the UK, Western Europe or North America were searched for, because these regions have been commonly presented to consist of highly individualistic countries (Hofstede, 2001). Further selection criteria regarding cultural origin included at least one of following three items:

(i) location of college education (the UK, Western Europe or North America), (ii) managers' surname (such as Mitchell, Peterson, Smith, etc), and (iii) appearances based on the participant's LinkedIn profile picture. The location of the fund manager's college education was selected as the most important factor because it was likely to be the country in which they were born and raised. Moreover, as demonstrated by the psychology literature, an individual's college years are important in the formation of their personality traits and worldview (Izard, 1962; Plant & Telford, 1966; Yang et al., 2006). Finally, the survey included a question designed to investigate participants' ethnic origin, in order to make sure that they satisfied the current survey's criterion regarding cultural background.

An invitation message including details of the research and a request to take part in a survey was circulated. Given the unsolicited nature of my enquiry and the somewhat secretive nature of the fund management industry, a low response rate was expected. However, in contrast, it proved a productive means of recruiting approximately 70 Western fund managers working at different investment companies. Strong interest in the results of the research project emerged as a key factor in their agreeing to participate. Comments such as the following were typical in this respect:

> "Interesting survey; very keen to see the results when you're done!" (Senior fund manager, Global Equity, London, October 2018)

The majority of participants completed the survey directly in the Microsoft Word document except for 41 Western fund managers who received a link to use the online survey software, Opinio. This software provides a user-friendly web interface to design a survey, invite and remind people to take part, track and review the results by individual, and download the raw data in Excel format. Data was then analysed using IBM SPSS software (Field, 2013). Ethical principles were strictly followed when collecting data, and all information was handled according to the UK's Data Protection Act, 1998. Furthermore, information about the research was given to all participants, and their consent to participate was obtained in advance (see Appendix K for copies of these

documents). Please refer to section 1.6 *Ethical Considerations* for full information on research ethics in the current research.

4.3.3 Measures

Questions in all six measures below were specifically created for this study by the researcher. These six measures will be treated as dependent variables in subsequent statistics tests. In addition, questions related to fund managers' demographic information were also asked during the survey. These questions cover two areas: (i) personal information including ethnic origin, age, gender, education, professional qualification, cross-cultural experiences, and investment tenure; and (ii) fund characteristics including fund size, division size, frequency of performance evaluation, criteria of performance evaluation, and type of fund. Based on the researcher's previous experience interviewing fund managers for Studies 1 and 2, these demographic factors were thought to be most relevant to investment decision making and were likely to be confounding factors in later ANCOVA tests. They were therefore deemed useful to include in the survey study.

Preference for macroeconomic information. The measurement of attention to macro-related information was based on participants' preference for seven important factors when identifying investment opportunities, including (i) geopolitical opportunities, (ii) macroeconomic factors, (iii) the growth of the sector, (iv) technological progress, (v) a company's restructure plan, (vi) the value of a company's cash flow, and (vii) a company's dividend policy. These seven items were rated from 0 (plays no role) to 5 (plays a predominant role). For the first four items, a high score indicated a stronger preference or more attention to macro-related information. For example, a high score to geopolitical opportunities indicates a strong preference to macro information. For the remaining three items, which describe firm-specific information such as a company's restructure plan and its dividend policy, the order was reversed. For example, a high score (plays a predominant role) for a company's dividend policy would indicate weaker or less attention to macro-related information. Participant's scores for the last three items were therefore reversed before calculating the mean score of responses to the seven

questions. The higher mean score indicated more attention paid to macro-related information.

Preference for a top-down approach. A single question was posed about the percentage of top-down approaches in fund managers' investment decisions: "In the past 12 months, what percentage of your purchasing decisions can be best described as top-down investing?" Participants were asked to respond with a percentage figure between 0% and 100%.

Preference for a short average holding period. In contrast to the qualitative assessment of average holding period in Studies 1 and 2, in Study 3 preference for a short average holding period was measured using a quantitative indicator. It was investigated by asking fund managers the single explicit question: "What is your average holding period approximately? (Please provide the best estimate you can)"

Preference for a short holding period for losing stocks. This indicator is related to hypothesis 1f, which predicts that Chinese fund managers will tend to hold losing stocks for a short time before selling. Fund managers' attitude to losing stocks was not directly investigated in Studies 1 and 2. In Study 3, it was measured by asking the single explicit question: "If a chosen stock underperformed significantly, how soon would you typically change your investment decision?" Participants responded by either (i) writing down an estimated number of months, or by choosing a second option: (ii) I'd make an automatic adjustment based on predefined rules, such as a stop loss. This question was added to Study 3 to help overcome a weakness in previous research (e.g., Atkins & Dyl, 1997) of over-relying on one single ex post indicator - the average holding period. Answers to the first option (i.e., indicating how many months before selling) could provide a more holistic approach for assessing a fund managers' time horizon.

Preference for contextual information during management evaluation. A five-item measure was designed specifically for this study, with a rating scale from 0 (don't agree) to 5 (strongly agree). For the first three items, a high score indicated more attention to context, such as "the type of manager I look for in

a large firm is different than in a small firm" and "the type of manager I look for in a state-run firm is different than in a private firm." The last two items were negatively phrased, or reverse ordered (i.e., less context-driven), for example, "I have a checklist for management evaluation, and it is applicable to all types of firms." The scores derived from negatively phrased items were therefore reversed before being included in the mean calculation of these five scores. The higher mean score indicates the higher level of attention paid to contextual information during management evaluation.

Preference for precise investment procedure. Three questions were designed to capture the precise level of investment procedure by fund managers: (i) the number of stages in the investment process, (ii) the percentage of decisions that were made following the defined process, and (iii) five statements describing the importance of factors in the investment process, such as complex mathematical models, quantitative indicators, and consistent risk control system. Participants responded to the first question by selecting one of five options describing a different number of investment stages and how precisely each stage was defined. For example, the first option read, "I have more than two stages in the investment process, and each stage is defined very strictly, such as specifying which factors are important and the methods for analysing those factors". Participants responded to the second question by providing a percentage figure ranging from 0% to 100%. For the third question, respondents were given five statements and asked to select a number for each using a scale from 0 (don't agree) to 5 (strongly agree). For example, the first statement read, "I make my investment as precisely as possible". Because the units used for these three questions were different, answers to the seven items involved were first standardized before a mean score was calculated. The higher mean score indicated a higher level of precision in the investment procedure.

4.3.4 Results from Testing Hypotheses 1C – 1H

In order to investigate Research Question 1: "Do investment managers from different cultures make investment decisions differently?", five analyses of covariance (ANCOVA) were used to retest hypotheses 1c, 1d, 1e, 1g and 1h,

which were supported in Study 2, and one analysis of ANCOVA was used to test hypothesis 1f for the first time, while controlling for the effects of confounding factors. The covariates for each ANCOVA test were very different, as shown in Table 7 (see page 125). These six hypotheses (hypothesis 1c - 1h) were related to non-state related analysis in the investment decision making process.

In searching for possible confounding factors, cultural group differences in demographic variables were tested with independent t-tests or Chi-square tests. Table 6 (see page 124) shows 13 variables which are significantly different between the two cultural groups based on the results from t-tests or Chi-square tests. Subsequently, Pearson's correlation tests were conducted in order to examine if these factors were significantly correlated with six dependent variables, respectively. As shown in Table 7 (see page 125), six dependent variables are correlated with different demographic factors, which should be controlled when conducting ANCOVAs. For example, as Table 7 shows, there are four variables including gender, age, investment tenure, and assets under management (AUM) that were correlated with the dependent variable - preference for macroeconomic information. Thus, when conducting the ANCOVA test with macro factor as the dependent variable, these four variables would be controlled as confounding factors. The reason for this type of adjustment is to remove irrelevant covariates that are not related to behavioural outcomes (Pocock et al., 2002)[11].

Furthermore, additional analyses were conducted to test for differential effects from completing the survey in the Microsoft Word document directly (N=146: 102 Chinese and 44 Westerners) and the web-based survey software, Opinio. (N=41 Westerners). Previous studies have found some possible effects from the use of different administration systems, with results being sensitive to the task or content of the instrument, the system characteristics, and users (Hardre

[11] When all 13 variables were controlled as covariates, the original conclusions were mostly supported, except for hypothesis 1c relating to macroeconomic information. In other words, the results of the ANCOVA tests with 13 covariates supported four hypotheses (1d, 1e, 1f, and 1g). In contrast, the results of the ANCOVA tests with various covariates (see Table 8, page 126) supported five hypotheses (1c, 1d, 1e, 1f, and 1g). This is because the p value for hypothesis 1c jumped from .002 to .16 when all 13 variables were controlled as covariates, instead of the original four covariates.

et al., 2007). The 146 Word-format responses (excluding the online survey software responses) were then grouped together and tested following the same data analysis strategies. Overall, no significant differences in test results were observed; thus, this factor was dropped from further analysis, i.e., without including it as a control variable.

Results of the ANCOVA tests (see Table 8, page 126) supported all of the first five hypotheses (1c, 1d, 1e, 1f, and 1g), as significant cultural group differences were found in the preference for macroeconomic information, a top-down approach, average holding period, holding of losing stocks, and attention to contextual information during management evaluation, and all in the predicted directions. In contrast, support was not found for the preciseness of investment procedure (hypothesis 1h). Thus, compared to their Western counterparts, Chinese fund managers paid more attention to macroeconomic information, were more likely to adopt the top-down approach in the stock selection process, had a shorter stock holding period, tended to wait less time before selling losing stocks, and paid more attention to contextual information during management evaluation. In Study 3, Chinese and Western fund managers were not significantly different in the preciseness of their investment procedure, which failed to support hypothesis 1h.

Table 6: Study 3 - Statistical Results for Demographic Variables

No.	Confounding Variables		Chinese	% of Total	Western	% of Total	Statistical Test Results	P-value	
1	**Gender**	Male	82	84%	77	93%	χ^2 (1, *N* = 181) = 3.48, φ = .14	.062	*
		Total	98	100%	83	100%			
2	**Age**		M=34.23 SD=5.10		M=43.14 SD=9.57		t (118) =7.49, d=1.16.	.000	****
3	**Investment Tenure**		M = 5.96 SD =4.10		M = 14.09 SD =9.73		t (108) =7.13, d=1.09.	.000	****
4	**Education**	PhD	26	27%	5	6%	χ^2 (2, *N* = 180) = 45.62, Cramer's v = .50	.000	****
		M	65	67%	38	46%			
		BA	6	6%	40	48%			
		Total	97	100%	83	100%			
5	**Professional Qualification**	Yes	37	54%	62	78%	χ^2 (1, *N* = 148) = 8.85, φ = .24	.003	***
		Total	68	100%	80	100%			
6	**Cross-Cultural Experience**	Yes	36	39%	51	62%	χ^2 (1, *N* = 174) = 9.23, φ = .23	.002	***
		Total	92	100%	82	100%			
7	**Assets Under Management (in USD Million)**		M=245.79 SD=874.67		M=3,688.52 SD=8,252.66		t (86) =3.83, d=.59	.000	****
8	**Number of Fund Managers and Analysts**		M=32.15 SD=63.45		M=64.18 SD=82.06		t (155) = 2.91, d=.44	.004	***
9	**Type of Funds**	Mutual Fund	57	58%	58	68%	Fisher's Exact Test, Cramer's v =.35	.000	****
		Hedge Fund	16	16%	8	9%			
		Others	25	26%	19	22%			
		Total	98	100%	85	100%			
10	**Frequency of Performance Appraisals (Once in Months)**		M=10.41 SD=3.70		M=14.84 SD=15.14		t (90) =2.6, d=.40	.011	**
11	**Absolute Fund Return as the Performance Benchmark**	Yes	65	68%	33	39%	χ^2 (1, *N* = 181) = 15.15, φ = .29.	.000	****
		Total	96	100%	85	100%			
12	**Peer Funds Performance as the Performance Benchmark**	Yes	56	58%	37	44%	χ^2 (1, *N* = 181) = 3.96, φ = .15	.047	**
		Total	96	100%	85	100%			
13	**Relative Returns Against Index as the Performance Benchmark**	Yes	34	35%	71	84%	χ^2 (1, *N* = 181) = 42.84, φ = .49	.000	****
		Total	96	100%	85	100%			

* p<.10
** p < .05
*** p < .01
**** p < .001

Table 7: Pearson Correlation Coefficients for Confounding Factors

No.	Confounding Variables	Hypothesis 1c		Hypothesis 1d		Hypothesis 1e		Hypothesis 1f		Hypothesis 1g		Hypothesis 1h	
		Macroeconomic Information		Top-Down Approach		Average Holding Period		Holding of Losing Stocks		Contextual Factors		Precise Factors	
1	Gender	0.156	**										
2	Age	-0.242	**	-0.318	****	0.472	****	0.199	**	-0.407	****	-0.238	**
3	Investment Tenure	-0.189	**	-0.264	**	0.396	****	0.193	**	-0.365	****		
4	Education			0.198	**	-0.34	****	-0.225	**	0.27	****	0.197	**
5	Professional Qualification									-0.186	**		
6	Cross-Cultural Experience					0.251	**						
7	Assets Under Management (in USD Million)	-0.196	**			0.155	**	0.182	**	-0.154	**		
8	Number of Fund Managers and Analysts									-0.193	**		
9	Type of Funds			0.237	**								
10	Frequency of Performance Appraisals (Once in Months)					0.41	****					-0.177	**
11	Absolute Fund Return as the Performance Benchmark					-0.223	**			0.197	**	0.204	**
12	Peer Funds Performance as the Performance Benchmark					-0.258	**						
13	Relative Returns Against Index as the Performance Benchmark			-0.278	****	0.358	****			-0.374	****		

**p < .05
****p < .001

Table 8: Results of Six ANCOVA Tests for Hypotheses 1c – 1h After Controlling Possible Confounding Effects

Hypotheses	Cultural Group: Chinese M	Chinese SD	Chinese n	Western M	Western SD	Western n	df	F	p	Partial Eta Squared	
Hypothesis 1c_Macroeconomic Information	3.75	.58	86	3.32	.61	80	(1,160)	10.07	.002	.059	**
Hypothesis 1d_Top-Down Approach	32.69	21.60	78	14.01	19.72	68	(1,139)	5.30	.023	.037	**
Hypothesis 1e_Average Holding Period	8.65	8.03	67	36.78	21.44	77	(1,133)	21.80	.000	.141	****
Hypothesis 1f_Holding of Losing Stocks	2.49	1.90	56	11.18	16.30	54	(1,104)	5.74	.018	.052	**
Hypothesis 1g_Management Evaluation	4.07	.76	54	2.92	.99	76	(1,120)	12.99	.000	.098	****
Hypothesis 1h_Investment Procedure	.16	.51	82	-.18	.58	79	(1,155)	1.16	.284	.007	

**p < .05
****p < .001

4.4 DISCUSSION

The aim of the following discussion is twofold. First, this discussion will compare the findings described in this chapter to the results of previous studies in the field. Secondly, the discussion will attempt to explore why there is discrepancy in the results of the second interview study (Study 2) and the survey reports in Study 3 regarding the examination of hypothesis 1h (investment procedure). As the findings described in this chapter form the key element of this research, their implications and limitations will be discussed in the final chapter of this thesis.

4.4.1 Situating These Findings within the Literature

The supported hypothesis 1c captures the finding that during the investment decision making process, Chinese fund managers tended to prefer macro information more than Western fund managers. The different attention paid to macro and micro information has been discussed in the previous research (e.g., Glasserman & Mamaysky, 2016; Jung & Shiller, 2006; Kacperczyk et al., 2016). However, no study to date has examined this topic from a cross-cultural perspective. For example, Glasserman and Mamaysky (2016) have found that investors endogenously choose to specialize in either macro or micro information. The investors they studied were observed to be ex ante identical - once they incur the cost of becoming informed, they are free to choose general combinations of signals, yet, in equilibrium, they concentrate in two groups: macro- and micro-informed investors. Thus, from this, one could speculate as to whether differences in the cost of acquiring macro or micro

information in China and in the West could have had an impact on my findings that Chinese fund managers paid more attention to macro information. It might potentially be a meaningful area for future research.

The supported hypothesis 1d captures the finding that Chinese fund managers were more likely than Western fund managers to adopt a top-down approach. Similarly, previous studies using self-report surveys have found that Western fund managers frequently adopted a bottom-up approach, an opposite method to the top-down approach (Agache, 2001; Arnswald, 2001). Interestingly, the finding that Chinese fund managers tended to adopt a top-down approach has not been as frequently echoed in previous research. This could be because, unlike the current research, previous studies focused on Western fund managers only.

The findings that Chinese fund managers were more likely to have a shorter holding period in general (supported hypothesis 1e), a shorter holding period for losing stocks (supported hypothesis 1f) and pay more attention to contextual information in their management evaluation (supported hypothesis 1g) have also had very few echoes in previous research. It can be argued that these specific investment behaviours - management evaluation in particular - might be especially difficult to measure and compare (Henry & Leone, 2016).

Nonetheless, that Chinese and Western fund managers were found to differ in five investment behaviours (supported hypotheses 1c, 1d, 1e, 1f and 1g) adds credence to the importance cultural psychology and cultural finance give to cultural differences in decision making. Based on these theories, particularly cultural psychology discussed in the literature review, the present findings that Chinese fund managers paid more attention to macroeconomic information, preferred a top-down approach, and relied more on contextual information during management evaluation is not surprising, as participants appeared to conform to past research illustrating the cultural value of Chinese collectivism and a cognitive preference for holistic thinking. What is somewhat surprising is that the Chinese fund managers I interviewed tended to have a shorter holding period on average and, in particular, a shorter holding period for losing stocks, because, culturally, the Chinese have been recognised to be more

long-term oriented than Westerners (Hofstede & Hofstede, 1991). This finding may suggest the important role played by economic context in the relationship between eco-cultural background and investment behaviours.

Furthermore, these findings also suggest that differences in investment decision making may be observed among fund managers from different cultural backgrounds, even if they may invest in the same market context. This is because all the participants in Studies 1 and 2 were asked to describe their investment decisions relating to the Chinese markets, whereas participants in Study 3 were asked to report on decisions made in their domestic markets (China and the West, respectively). Intuitively, it makes sense that investment decision making differs when fund managers from different cultural background are primarily investing in their domestic market given the huge variation between emerging Chinese markets and developed Western markets, as found in Study 3. Nevertheless, a similar pattern was also observed in Study 2 wherein fund managers from the different groups were investing in the same market context (i.e., both Chinese and Western fund managers invested in the Chinese market), suggesting a need for research into the influence of a fund manager's prior domestic experience on their overseas role. Although this is beyond the scope of the current study, it is valuable to consider these observations.

4.4.2 Why Might the Discrepancy in Results Between Interview and Survey Methods Exist?

This section will explore why the discrepancies in the results provided by the interview and survey methods for hypothesis 1h could have arisen. Hypothesis 1h stated that Chinese investors' investment procedure is defined less precisely than it is by Western investors. Significant key effects were found for the differences in investment procedure between Chinese and Western fund managers in Study 2 (interview based), but not in Study 3 (survey based). In other words, in Study 2, Western participants were shown to have a more precise investment procedure, whereas in Study 3, Chinese and Western fund managers were shown to not be significantly different in their investment procedure.

A key reason for this could arguably lie in the issues that more generally exist in comparing quantitative and qualitative research findings. Brannen (2005) has argued that researchers cannot simply assume that data collected using quantitative and qualitative methodological techniques about the same construct will corroborate with each other. Rather, “corroboration” is only one of four possible outcomes in mixed-methods research, including “complementarity”, where the qualitative and quantitative findings contrast with each other but together provide insights into a phenomenon, “elaboration”, where the qualitative findings are used to expand on particular quantitative findings, and “contradiction” (Brannen, 2005).

In the current research, there were considerable differences between the two methods used, which could lead to low levels of agreement. For example, participants in Studies 2 and 3 constituted two non-random samples drawn from two different populations, because participants in Study 3 were investing in either China or the West, while participants in Study 2 were investing in the Chinese markets. Hence, it was reasonable to expect that the probability of highly consistent results was low, making data more likely to be complementary than consistent. To our surprise, there was a high corroboration ratio between Studies 2 and 3 (i.e., supported hypotheses 1c, 1d, 1e and 1g), which may imply the important role Western fund managers’ domestic market context played, i.e., when investing in Chinese markets, Western fund managers behaved the same way as in their own Western markets (please refer to Chapter 6 for further discussion about the role of domestic market context).

In contrast to hypotheses 1c – 1g, the low degree of similarity between the types of questions asked about hypothesis 1h and the structure of the questionnaires and interviews was likely to affect the degree of concordance between participants’ responses (Harris & Brown, 2010). Specifically, in the survey, participants were asked directly how consistent they were in their investment procedure, i.e., about “the percentage of decisions that were made following the defined process”. In contrast, in their qualitative interviews, which took approximately 60 minutes to complete, participants were encouraged to

give as much detail and clarification as possible in their answers to open-ended questions, which did not specifically ask about the consistency of their investment procedure. Consistency was rated based on how closely a participant followed their defined rules in all the investment examples described; thus, it was an indirect investigation.

Furthermore, the investment procedure represented by hypothesis 1h was arguably highly complex and conceptually more abstract than constructs in other supported hypotheses, which is likely to be another factor affecting the degree of concordance (Harris & Brown, 2010). In the survey, there were seven items relating to the measurement of investment procedure – the largest compared to other hypothesis-related measurements – in order to capture its complexity. As a result, the investigation relating to hypothesis 1h in the survey may have been more prone to misinterpretation by participants. For example, a Western fund manager commented:

> "It is difficult to be very precise about this given the way the questions have been set. We have a well-defined process, but it is not always easy to characterise it according to the metrics set out in the questionnaire." (British fund manager, London, October 2018)

Despite these considerations regarding identified discrepancies due to using different methods of measurement, the different findings related to investment procedure in the qualitative and quantitative studies may provide insights into a phenomenon. The time gap between collecting the two types of data could have revealed a genuine shift in investment behaviours; in other words, Chinese fund managers may have indeed become more precise in the design of their investment procedure from the time of Study 2 (2015-2016) to that of Study 3 (2017-2018), perhaps due to certain dramatic events occurring between these periods. The 2015 stock crash in the Chinese markets can arguably be defined as this type of triggering event. According to an informal conversation with a senior fund manager from a top Chinese mutual fund at a social event in 2019, 2015 was a turning point for China's asset management industry. He stated that, "The market crash and subsequent regulatory tightening has transformed the Chinese mutual fund industry, and the

investment procedure of many fund managers has really changed from ‘art’ to ‘science’, becoming more standardised and more structured.”

A similar finding has been revealed in a recent paper by Luo et al. (2022). The authors found that Chinese managers who experienced a stock market crash were more value-oriented in their portfolios. Value investors typically buy and hold assets for a long time and have low portfolio turnover. Thus, it suggests that the bubble-crash experience has led to changes in investment behaviours. According to Luo et al. (2022), these crash-related experiences are important because they are so extreme; accordingly, they are more likely to be salient and therefore exert a larger impact on fund managers’ investment styles than other non-salient trivial investment experiences in the decision-making process. The effect of such crash-related experiences would be distinctively different from the effect of the accumulative experiences proxied by managerial age and tenure.

However, in relation to hypothesis 1h, given the measurement issues discussed above, the explanation relating to changes in investment behaviour seems to be beyond the scope of this thesis. Nevertheless, querying this matter in the current research may provide a foundation for further scale development as researchers proceed to assess the nature of structural change in investment procedure.

4.5 CONCLUSION

The overall aim of this thesis is to examine whether investment decisions made by fund managers from China and the West are different (Research Question 1), and, if so, are these differences due to economic context, cultural values or cognitive preferences (Research Question 2), and how are these behavioural differences related to investment returns? (Research Question 3).

Consequently, the aim of the studies described in this chapter was to examine Research Question 1 by exploring cultural differences in several investment behaviours wherein attitude toward the state is less of a concern. As shown, in Study 2 differences in the predicted directions for five non-state related behavioural patterns between Chinese and Western participants were

supported (hypothesis 1c: attention to macroeconomic information, hypothesis 1d: preference for a top-down approach, hypothesis 1e: stock holding period, hypothesis 1g: methods of management evaluation, and hypothesis 1h: preciseness of investment procedure). The first four hypotheses were supported again in Study 3, while the last behavioural difference relating to preciseness of investment procedure (hypothesis 1h) was not supported. In addition, Study 3 added a further hypothesis, which turned out to be supported (hypothesis 1f: holding period of loss-making stocks). Given these observed behavioural differences, Study 3 was also carried out to examine Research Questions 2 and 3 in relation to these differences. This aspect will be chiefly discussed in Chapter 6.

To date, despite the prevalence of cross-border equity investment (Coppola, et. al., 2021), differences in investment behaviours across cultures is a relatively unexplored research area, although a growing number of quantitative studies have explored the relationship between cultural values and investment across different cultures in the new discipline of cultural finance. Thus, an examination of the investment experiences of fund managers from different cultural backgrounds within an integrated framework seems pertinent at this time.

CHAPTER 5: State Related Information Analysis in the Investment Decision Making Process (Research Question 1)

5.1 INTRODUCTION

The overall aim of this thesis is to examine whether investment decisions made by fund managers from China and the West are different (Research Question 1), and if so, are these differences due to economic context, cultural values or cognitive preferences (Research Question 2); further, how are these differences related to investment returns? (Research Question 3). Following on from the previous two chapters in which Research Question 1 is investigated, the aim of this chapter is to further explore cross-cultural differences in investment behaviours, specifically the processing of state related information, including attention to policy and political news and attitude to the government's influence (i.e., hypotheses 1i and 1j).

As hypothesis 1i states, policy and political analysis will be a more important element in the decision making process of Chinese fund managers' than for Western fund managers. Also, as indicated in hypothesis 1j, regarding the perception of the state's influence on capital markets, that Chinese fund managers are more likely to treat the Chinese government as a "phantastic object" than Western fund managers. These two hypotheses explore the influence of one important economic contextual factor in the conceptual framework (see Figure1, p.30 and Figure2, p.82): the involvement of state power within the economic system.

These two hypotheses were primarily investigated in Studies 1 and 2 using the semi-structured interview method. Participants in these two interview studies were all asked to describe their decisions when investing in Chinese companies; thus, the focus of the investigation was the attitude to the Chinese government in particular. In Study 1, slight differences in these behaviours between Chinese and Western fund managers were indicated (see Chapter 2). Two hypotheses were then developed to be tested in Study 2. By adopting a similar interview method with a different set of participants and using a more vigorous data analysis, Study 2 examined whether Chinese and Western fund managers are significantly different in attention to policy and political news

(hypothesis 1i), and attitude to the influence of the Chinese government (hypothesis 1j).

Little previous research has been conducted regarding fund managers' attitude to or perception of political news or the state. Most political studies have focused on how to do political analysis correctly (Chevalier & Hirsch, 1981; Haendel & Jordan, 2019). Thus, they are normative in nature, meaning a person "ought to do" rather than "is" doing (descriptive) (Simon, 1979). However, the fact that these studies ignore the crucial influence of perception on decision makers is an inherent weakness because they assume that the relevant factors for the measurement of political situation can be adequately captured with archival data. However, very often decisions are made based on the decision makers' own judgment of the situation or their prevailing attitudes (Iloiu & Iloiu, 2008).

One noticeable exception to this trend is an ethnographical study conducted by Hertz (1998), who spent ten months studying the Shanghai stock market and people's responses to it. Hertz (1998) found that individual Chinese investors regarded political analysis to be the most important form of analysis, followed by technical and fundamental analyses. She described how Chinese investors had developed political analysis into a kind of high art, involving the study of the central and municipal leaders and the direction they are leaning in (as individuals and as cliques), and also observing the jockeying for power currently taking place amongst these leaders. In Beijing, where much of the population followed the political profiles of important central leaders, intense attention was paid to hints in newspapers and photographs which shed light on power plays amongst these figures. Furthermore, in contrast to the objective calculation of indirect consequences (which a change in the US interest rates requires), in their attempts to penetrate the often obscure and sometimes deliberately secret moves taken by the various agencies responsible for the market, Chinese investors relied heavily on intuitive guesswork and the sharing of rumours. However, the Chinese investors in Hertz's (1998) study were small individual investors, who, arguably, could be very different from the professional fund managers in the current study (Köhler

et al., 2020). Moreover, Hertz's (1998) observations are noticeably outdated. At the time of her fieldwork in China, neither the professional investment industry nor fund managers existed.

A more recent study exploring the comparison between Chinese fund managers' and Western fund managers' preference for investing in state-owned Chinese companies was conducted by Liu et al. (2014). They found that Western fund managers preferred to invest in state-run Chinese corporations, while surprisingly, Chinese fund managers did not show such preference. However, due to the quantitative nature of the study, the authors acknowledge that their analyses did not allow for any investigations of the causes for the preference for state-run corporations by Western fund managers, and in other words, the perceptions of the decision makers were not considered.

Ultimately, there has been a dearth of research specifically exploring the perceptions or attitudes of fund managers towards policy or political news, and regarding the role of the state in their decision making process within a cross-cultural framework. This is surprising given that policy and political analysis are so vitally important for investment in China and also in the West (Haendel & Jordan, 2019). A qualitative study conducted with fund managers from China and the West could therefore crucially address this gap in the literature. It could also help to address the limitation of previous research in this area (Iloiu & Iloiu, 2008).

5.2 STUDY 2: SEMI-STRUCTURED INTERVIEWS

Study 2 is an investigation to test hypotheses that Chinese and Western fund managers show differences in their investment behaviours during the investment decision making process. Data was collected using a qualitative interview method.

5.2.1 Participants

The complete data set was comprised of 30 fund managers from two cultural groups: mainland China and the West (four nations were represented; please refer to Table 2 which shows the participants' home countries). Individuals

participating in Study 2 were different from those participating in Study 1 to avoid a participant taking part in both studies. Demographic information for investment tenure, gender, asset under management (AUM), nationality of the fund they were actively working, and highest level of education was collected. Investment tenure was selected for analysis rather than age because tenure is a more significant factor here (Boyson, 2003). More detailed information is available in section 4.2.1.

5.2.2 Materials and Procedures

Interview questions related to the hypotheses tested in the current chapter include: “Can you give me an investment example where political analysis has played an important role?”; “How did you analyse the impact of government policy on the stock you have invested in?”; “What percentage of Chinese holdings is in banks?”; “Why did you invest in banks?”; “Are you worried about non-performing loans on Chinese banks’ balance sheets?”; “How much do you think the Chinese government can influence the market?” (Detailed information about the materials and procedures used in Study 2 can be found in section 4.2.2.)

5.2.3 Method 1 Data Analysis – Quantitative Rating Scales

Procedure

Following the procedure outlined in section 4.2.3., the rating scales associated to hypotheses 1i and 1j are shown in Tables 9 and 10 (see page 137).

Table 9: Differences in Attention Paid to Policy and Political Information by Fund Managers During the Decision Making Process

Scale	Definition
4	A manager rated "4" spends more than two hours each day reading the news. He likes to use social media networks or discuss political information with his close friends. The information he gathers is not just public information, but also includes rumours and implicit hints. He is looking for implicit hints that politicians may favour a company, industry, or sector; that politicians may discourage some stock rises; that politicians may want to control the movement of the markets
3	A manager rated "3" spends less than two hour each day reading the news. He sometimes likes to use social media networks or discuss political information with his close friends. He is sometimes looking for implicit hints that politicians may favour a company, industry, or sector; that politicians may discourage some stock rises; that politicians may want to control the movement of the markets.
2	A manager rated "2" spends less than one hour each day reading the news. He rarely uses social media networks or discusses political information with his close friends. He is only interested in the public announcements on public news channels about tax policies, subsidies, or interest rates and their consequences.
1	A manager rated "1" rarely pays attention to political news.

Table 10: Differences in the Extent to Which the Chinese Government is Treated as a "Phantastic Object" by Fund Managers During the Decision Making Process

Scale	Definition
4	A manager rated "4" very much trusts the state will do whatever it takes to save a particular company, sector, or the entire market. He very much likes investing in state-run firms and Chinese banks. He is not worried about bad loans, because of government support, rather than any objective calculations.
3	A manager rated "3" somewhat trusts the state will do whatever it takes to save a particular company, sector, or the entire market. He somewhat likes investing in Chinese state-run firms and Chinese banks. He is not really worried about bad loans because of government support.
2	A manager rated "2" hardly trusts the state will do whatever it takes to save a particular company, sector, or the entire market, although he still does default risk analysis. He has no particular preference between Chinese state-run firms or private firms. He is a bit worried about bad loans in Chinese banks.
1	A manager rated "1" does a lot of risk analysis including default risks. He does not like investing in Chinese state-run firms or Chinese banks. If he does invest in Chinese state-run companies or banks, it would be based on objective calculation, not because of blind trust in government support.

As presented in Table 9, hypothesis 1i was investigated from three aspects: (i) the amount of time spent on political news; (ii) methods of obtaining information, including mainstream news channels, social media networks (e.g., WeChat) or private conversations; and (iii) methods of carrying out policy and political analysis, including objective analysis of public announcements, analysis of politicians, intuitive or superstitious guesswork. A manager who was rated "4" spent more than two hours each day reading the news. He liked using social networks or discussing political information with his close friends. The information he gathered was not just from the public sphere, but also included rumours and implicit hints, including politicians favouring a company or industry, politicians discouraging some stock rises, and politicians wanting to control the movement of the markets.

As presented in Table 10, hypothesis 1j was mainly investigated from two aspects: (i) fund managers' attitude towards investing in Chinese state-run firms, especially Chinese state-run banks; and (ii) how much fund managers believed the Chinese government could influence the stock markets. A manager who was rated "4" trusted highly that the state would go to great lengths to save a particular company, sector, or entire market. He liked investing in state-run firms and Chinese banks. He was not concerned about bad loans, mainly due to his faith in the government's support of a bank, rather than any objective calculations.

Detailed information about the process of transforming the interview data is fully documented and available upon request. Randomly drawn examples are provided in Appendix H.

Reliability

The reliability of the above rating scores was evaluated by inter-rater agreement, described in section 4.2.3. A second researcher blind to the purpose of the project randomly drew 30% of the interview material and rated it independently according to the coding book. The value of intra-class correlation coefficient (ICC) (Fisher, 1954) was calculated in order to assess consistency or conformity between two quantitative measurements from two researchers. Although there is no standard threshold for determining

acceptable level of the ICCs, an ICC of higher than 0.5 is generally considered an “acceptable” level of agreement among raters. For example, Fleiss (1986) suggested that an ICC between 0.40 and 0.75 is “fair to good”. Koo & Li (2016) summarized that in published studies an ICC between 0.5 and 0.75 indicates moderate reliability, an ICC between 0.75 and 0.9 indicates good reliability, and an ICC greater than 0.90 indicates excellent reliability. In the current study, ICC values on two rating schemes (Table 9, page 137 for hypothesis 1i, and Table 10, page 137 for 1j) were 0.82 and 0.93, respectively, providing assurance that the level of reliability in the rating and classification procedures was substantially high.

5.2.4 Method 2 Data Analysis – Content Analysis

In addition to rating scale analysis, the qualitative data was also analysed and transformed into quantitative data following the content analysis method (Downe-Wamboldt, 1992; Morgan, 1993). The additional method was used here not only for the purpose of triangulation, i.e., using multiple methods to strengthen the validity of the findings from the first method (Carter et al., 2014), but also to maintain the richness of the qualitative content and develop a comprehensive understanding of phenomena (Patton, 1999). In the context of the current study, it served to reveal the perceptions of participants regarding political analysis and the state in more details.

The analytical process included several stages, including selecting the unit of analysis, defining the categories, revising the coding rules, coding all the data, and counting of the codes, which leads to counts and tabulations of the codes summary (Downe-Wamboldt, 1992; Morgan, 1993). By so doing, one can determine trends, the patterns of words used, their frequency, their relationship and the structures (Vaismoradi et al., 2013).

5.2.5 Findings from Testing Hypotheses 1I – 1J

Findings from Testing Hypothesis 1i:

Hypothesis: 1i - Policy and political analysis will be a more important part of Chinese fund managers’ decision making process than it is to Western fund managers.

This hypothesis was investigated from three aspects. As shown in the rating table (Table 9, page 137), the rating scores were largely determined by i) length of time spent reading the news; ii) type of media that fund managers from different cultural backgrounds preferred for information gathering; iii) method of doing political analysis, such as objective analysis or superstitious guesswork.

Rating Scale Analysis

Statistical T-tests on rating scores relating to hypothesis 1i show that cultural background did not appear to be a significant factor in state-related information processing. There was no significant difference between the two cultural groups in their attention to policy or political news (M=2.80, SD=.94 for Chinese, and M=2.33, SD=.49 for Western participants, $t(21)=1.71$, p=.103). Thus, hypothesis 1i was found not to be supported.

Content Analysis

The summary below, based on the content analysis of interview data (Table 11), shows that Chinese and Western fund managers were fairly similar in the length of time spent reading the news and in their methods of doing political analysis, whereas they differed in the preferred type of media for information gathering. The similarities among Chinese and Western fund managers regarding the first and third aspect illustrate why hypothesis 1i was found not to be supported by statistical testing of rating scales.

Table 11: Attitude Towards Policy and Political Analysis Based on Thematic Analysis

	Chinese	Westerners
Average Time Reading News	2.1 Hours	1.7 Hours
Media Source	Social Media Networks (80%)	Mainstream News Channel (60%)
Objective Analysis of Public Policies	93%	80%

Note: Numbers in brackets represent the proportion of participants

First, Chinese and Western fund managers were fairly similar in terms of time spent reading the news: on average Chinese fund managers spent 2.1 hours each day, in contrast to the 1.7 hours spent by Western fund managers.

Likewise, the majority of Chinese (93%) and Western (60%) fund managers followed a similar analysis procedure when dealing with policy and political issues. For example, participant Western 49 said that he spent two hours each day reading global news. Since 70-75% of his portfolio was invested in Chinese companies, it would be reasonably to guess that he would spend at least one hour plus on news related to China. He acknowledged that he was interested in Chinese political news and politicians:

> "We are normally interested in a change of guard; it is the only thing we look at. Change of key individuals of the companies and politics (government). When a particular official is changed or moved, it is more interesting. To get a profile of that person, we need to get translators - full profile. You can get an idea what sort of individual." (Western 49)

Similarly, participant Chinese 54 spent 2 hours each day reading the news, giving particular attention to politically related news. In describing how policies affect his investment, he revealed how the Chinese government has repeatedly stated that they would like to boost support for industrial intelligence. He therefore searched for a firm within that sector, although there were few available, especially good ones because it was a very new sector. One particular firm caught his attention because he was impressed by its managers, who were young, confident and knowledgeable. It appeared that he was extremely keen to follow the direction of government policy, despite the lack of good firms within the sector.

In terms of the third aspect of this hypothesis, i.e., the method of doing political analysis, as may be recalled from Study 1, one Chinese fund manager (Chinese 41) used an astrological chart to analyse Chinese politicians. This data had tipped the balance towards slightly more evidence regarding the perception that Chinese fund managers employed a higher degree of policy and political analysis, leading to the generation of hypothesis 1i. Interestingly, in Study 2, no Chinese fund managers mentioned utilising these intuitive or superstitious methods for carrying out political analysis. Therefore, such practice may therefore be an exception, rather than the norm and putting too much emphasis on a specific occurrence may lead to misperception. Hence, with the collection of further data in Study 2, it could reasonably be concluded

that Chinese and Western fund managers were not significantly different in the method of doing their policy and political analysis.

However, in testing hypothesis 1i, one difference that emerged related to the type of media that fund managers from different cultural backgrounds might prefer. I found that the majority of Chinese (80%) preferred using social networks, whereas the majority of Western fund managers (60%) tended to use mainstream news channels. The reasons for this preference provided by the Chinese participants were rather in line with Hall's cultural model (1976) of high-context cultures, in which the rules of communication are primarily transmitted through the use of contextual elements (i.e., body language, a person's status, and tone of voice) and are not explicitly stated. Communication patterns in high-context cultures are described as typically including non-verbal cues, which are not evident from thin media such as mainstream news channel. The cues in high-context cultures may not only provide aspects of immediate nonverbal behaviour, but also the background knowledge derived from understandings developed through a lengthy relationship. As pointed out by Peterson et al., (2023), cues to meaning in high-context communication may in effect be intuitions of the probable intentions of the communication partner based on internal representations of social roles rooted in past interactions. For example, Chinese fund managers considered social media to be superior in four aspects: (i) speed, (ii) easy access (for example, checking social media on the phone during travelling), (iii) information filtering, and (iv) information sharing. Some examples (from the Study 2 interviews) include:

> "WeChat is quicker, timely and more efficient as I can use my fragmented time to read the news. Moreover, since information in WeChat can be viewed among members in the same group, it means that the people who initially shared the information believe it is an important piece of news and have already done the initial filtering. It is active reading, rather than the traditional passive way of reading, i.e., you just open the broadsheet newspapers and passively digest whatever is in the papers." (Chinese 53: speed, information filtering, information sharing, taking advantage of fragmented time)

Chinese 54 relies on social media a great deal, particularly WeChat. He said that:

> "I am a member of over 100 large online groups, and there are commonly 500 people in each group and members can communicate and share information with each other". (Relates to item: "information sharing")

In contrast, Western fund managers reported four reasons regarding their preference for mainstream news channels: (i) there is no difference between mainstream news channels and social media networks, (ii) other colleagues follow social media networks, (iii) the language barrier (e.g., they could not read Chinese), and (iv) speed is not important. These reasons (particular the first) were largely in line with Hall's cultural model (1976) of low-context cultures, in which words are more important than body language, and verbal messages are explicit, direct, and concise. Some examples (from the Study 2 interviews) include:

> Western 67 mainly relies on mainstream news channels for information, such as The Economist, The Financial Times, and Bloomberg. He used to follow social media networks but did not find it to be a big advantage. (Relates to item: "no difference between mainstream news channels and social media networks")

> Western 64 does not follow social media networks, but his analysts need to read the news in the local language. About this, he said, "Not personally. But we had analysts working with us, researching. We were asking for information on that: whether about reviews of products, looking at local language websites, WeChat, forums, etc." (Relates to item: "other colleagues follow social media networks")

> Western 50 reads daily updates from brokers, and mainstream news channels - Bloomberg, and Caixin (online in the English translation). Because neither he nor his colleagues speak Chinese, they don't often use social media networks such as Weibo. (Relates to item: "language barrier")

> Western 63 only uses social media, such as Twitter, occasionally. He said: "We don't use social media much because we have a very low turnover

ratio. So, we don't need to know news quickly, we just need to digest it." (Relates to item: "speed is not important")

Findings from Testing Hypothesis 1j:

Hypothesis: 1j - Chinese fund managers are more likely to treat the Chinese government as a "phantastic object" than Western fund managers.

This hypothesis was investigated from two aspects. As shown in the rating table (Table 10, page 137), the rating scores were largely determined by: (i) fund managers' attitudes towards investing in Chinese state-run firms, especially banks; (ii) how much fund managers believed that the Chinese government could influence the stock markets.

Rating Scale Analysis

Statistical T-tests on rating scores relating to hypothesis 1j show that there was no significant difference between the two cultural groups in their perception of the Chinese government's influence on capital markets (M=2.20, SD=.88 for Chinese, and M=2.13, SD=.88 for Western participants, $t(28)$=.24, p=.540). Thus, hypothesis 1j was found not to be supported.

Content Analysis

The summary below based on the content analysis of interview data (Table 12, below) revealed that Chinese participants were less willing to invest in Chinese state-run firms, particularly banks, as only about 13% of Chinese fund managers expressed a preference for investing in this type of firm. Despite this, the majority of Chinese fund managers (93%) believed that the Chinese government could strongly influence the stock markets. In contrast, Western fund managers were more willing to invest in Chinese state-run firms, as 80% of Western fund managers expressed a preference for this type of firm. Nevertheless, only a small proportion of Western fund managers (27%) believed that the Chinese government could strongly influence the stock markets. The inconsistency among Chinese and Western fund managers in these two aspects (i.e., Chinese was *low* in the first aspect and *high* in the second aspect, whereas Western participants was *high* in the first aspect and *low* in the second aspect) illustrate why hypothesis 1j was found not to be

supported by statistical testing of rating scales, as the average score would be rather similar.

Table 12: Perception of the Chinese Government

	Chinese	Westerners
Preference for Investing in Chinese State-Run Firms	13%	80%
How Much Can the Chinese Government Influence the Markets?	Very much (93%)	Very much (27%)

It should be mentioned that the reasons cited by the Chinese and Western participants for preferring to invest or not in Chinese state-run firms were mainly business-related. In other words, as shown in Tables 13 and 14 (see pages 145 and 147), they stemmed from practical considerations rather than being based on an idealised vision of the Chinese government as a "phantastic object". For example, Western fund managers preferred to Chinese state-run banks, because they were easier to understand than private firms as more information was available on these state-run firms. Furthermore, steady dividend payments from Chinese banks and their low valuation were also often highlighted by Western participants. In contrast, Chinese fund managers were reluctant to invest in Chinese state-run banks, because they were concerned with associated risks, poor corporate governance and declines in profits.

Table 13: Chinese Managers' Rationales for Being Less Willing to Invest in State-Run Firms

Rationale	Examples
No Confidence in Government Policy	Chinese 52 gave an example of a state-run firm he chose not to invest in: "Although the firm was likely to benefit following the announcement of the government-led project "One Belt, One Road", I wouldn't invest in them precisely because of that policy - because we don't have the same level of confidence in the project as President Xi."
Concern about the Risk Posed to the Banking System by a Weak Economy	Chinese 61 said: "The Chinese banking sector has eaten a large chunk of the profits of other sectors. In the context of the real economy, which is currently weak, Chinese banks are still enjoying large profit margins because they are protected by the government. In normal circumstances, the banking sector would rely on and reflect the real economy. When this is not doing well, the banking sector would also be struggling. In the future, I think the hidden risks

	inside these Chinese banks might materialise or be revealed in some way." Chinese 60 also did not like to invest in Chinese state-run banks. He could not recall the last time he bought Chinese bank stocks. He reported that when he had bought them in the past, it was for a very short period. His analysis was that, as economic growth slowed down, the fundamentals of these banks were not looking good, despite their low valuation. Chinese 59 did not like investing in Chinese state-run banks because he had no confidence in the country's economic perspective and its ability to rein in the issue of growing debt.
The Banking Sector is Bound to Decline in the Future	The gloomy predictions reported by Chinese 20 about Chinese banks were based on his theory of wealth distribution within society. As he explained: "Together, Chinese banks account for a large proportion of the market capitalization of Chinese markets, which means that the wealth of the entire society is largely being confined to the banking sector. It is an unfair distribution of social wealth. Currently, the Chinese economy is lacking dynamic energy. In order to inject energy into the system, there would need to be a redistribution of wealth, which, in the future, should be increasingly channeled from financial institutions into the real economy and efficient private firms. Within this scenario, the profitability of Chinese banks is bound to decline. Chinese 45 reported that, "The banking industry is a declining sector; managers at state-run companies are inefficient and lazy".
No Protection or Concern for the Interests of Minority Shareholders	Chinese 55 complained that managers at state-run firms did not care about smaller shareholders: "In their perspective, completing tasks assigned by the governmental agencies is more important than the market price of the firm's stock" He also complained that managers from state-run firms were not good at communicating to investors: "They are not willing to meet with us."
Recruitment Issues are Worse in China's State-Run Firms than in Private Firms	Chinese 55 highlighted that there were issues regarding the appointment of senior management in state-run firms in China: "There are a lot of uncertainties about management turnover in state-run firms, as the state personnel department decides who can be managers and their length of tenure. In contrast, for most private firms, the CEO is normally the founder and has been in post for a very long time and will remain for at least 5-10 years. To a large extent, the business development of a firm is determined by the capability of its managers. The uncertainty surrounding CEO appointments in state-run firms greatly increases investment risks and reduces the incentive to hold stocks long term."

Table 14: Western Managers' Rationales for Willingness to Invest in State-Run Firms

Rationale	Examples
China's State-Run Banks are Easier to Understand than Private Firms	Western 50 commented: "With state-run firms, you can figure out who they are. With private firm, you just have no clue who they are and what their background is. There are terrible scandals in some private firms". Western 63 remarked: "To be completely honest, we slightly prefer state-run firms, because although we understand that they are not governed by shareholder maximisation, they are at least guided. If you know Chinese policies, then you understand that these firms will benefit."
The Government may Intervene Less in Large State-Run Corporates	Amongst state-run firms, Western 38 said he preferred to invest in the very largest, because he believed that the Chinese government could only manipulate medium-sized corporates. He suggested that: "The company is too big for the government to play."
Dividend Payments are Good	Western 34 stated: "We think Chinese banks are doing OK. They pay dividends, which are normally a good indicator of corporate governance."
Their Valuation is Attractive	Western 68 observed the "exceptional valuation" of Chinese banks, particularly those that are state-owned. He explained his rationale: "As an investor, I have learnt that value investing is extremely profitable. It tends to work when macro risk is extremely high. However, recently there have been strong signs that China is stabilising. A year ago, there was a concerted effort to devalue the yuan and that seems to have ceased. Demand seems to have picked up; you can see this from commodity prices rising significantly. As a result, the economy seems to be stabilising, but there is still fear. People are concerned that China will slow down, stop growing, grind to a halt, and have a credit-fueled crisis. As a result, there is increased scientism, in other words, there is exceptional valuation, and these valuations become extreme, which is often an interesting entry point. This is the case with the financials in China in the current year."

Strong Confidence in the Chinese Government's Support of State-Run Firms	Western 50 had invested in a Chinese bank, which was one of his longest holding stocks to date. He was not overly concerned about the issue of bad loans among Chinese banks, as he believed the loans were manageable, with little desire to "crystallise" them. To explain what he meant by this, he gave an example of a large Chinese bank. He said that prior to this bank's initial public offerings, its nonperforming loans (NPL) ratio was terrible. However, the Chinese government dealt with the problem by writing the NPLs off. Although Western 50 did not believe the NPLs reported by Chinese banks, he was confident that they had the backing of the government, the richest institution in the world. He commented that the idea that the Chinese banks or the government could go bust was ridiculous: "If the Chinese government goes bust, we would all end up living on the street: it would be a disaster for the world. As long as we are realistic about what we think the actual number of NPLs is and stress testing the problem in our model properly, it should not a big concern." Western 51 also believed that the Chinese government would eventually resolve the issue of the Chinese bank's NPLs.
Confidence in China's Growth	In terms of growth, Western 51 reported: "The interest rate is coming down. I'm not too worried about China's growth. There isn't much downside risk." He also stated: "Lower interest rates are not good for earnings, but it would make those banks safer".
Index-Linked Funds Inevitably Invest in Chinese Banks due to their Heavy Market Weight	The fund operated by Western 64 took a 10% stake in Chinese domestic A shares through an exchange-traded fund (ETF). Because the A shares were dominated by banks, he said that he was "kind of investing in Chinese banks by doing that." Western 23 also invested in Chinese banks, because they "account for a very large weight in the emerging market index. It would be very risky if we didn't have any bank holdings."

5.3 DISCUSSION

In this chapter, in order to consider the influence of cultural background on the investment behaviours of Chinese and Western fund managers, the involvement and impact of state power within the economic system was further explored. Hypothesis (1i) predicted that in their investment decision making, Chinese fund managers would pay more attention to policy and political news. Additionally, hypothesis (1j) predicted that Chinese and Western fund

managers would have differing perceptions of the state (mainly the Chinese government) and would therefore show different preferences for investing in Chinese state-run corporations. Within the context of the Chinese and Western fund managers interviewed in Study 1, slight differences in these behaviours were identified. However, as discussed in this chapter, the findings from Study 2 did not support these hypotheses. Thus, it was concluded that Chinese and Western fund managers were rather similar in their carrying out of policy and political analysis as well as in their attitude to the Chinese government.

The aim of the following discussion is threefold. First, this discussion will compare the findings of this chapter with the results of previous studies in the field. Second, it will review these findings in relation to one theoretical perspective - the legal theory of finance (LTF). Finally, conclusions drawn from the study will be discussed, including its limitations.

5.3.1 Situating the Findings Within the Literature

Concerning the choice of media utilised to access information about policy and political affairs, the current research found that Chinese fund managers preferred social media networks in addition to mainstream news, while Western fund managers relied mainly on mainstream news channels. This reflects findings from previous studies in the field, which have detailed the types of communication styles that people of different cultures may prefer (Hall, 1976; Straub, 1994). Hall (1976) argued that cultural individualism entails a preference for low-context communication, requiring a great deal of explication, as compared to high-context communication that relies on extensive background knowledge and nonverbal cues. Hence, in the current study, the Western participants showed a preference for lean, less personal media that efficiently transmits explicit factual information, such as mainstream news channels, whereas the Chinese participants indicated a heavier use of richer, more personal media for information sharing and filtering, such as that offered by social media networks.

Regarding the perception of the Chinese government, the majority of Chinese fund managers believed that the government wields a significant influence on the markets; many of the participants openly praised Chinese state-run

companies. However, participants also chose not to invest in these firms due to concerns about the business risks, such as a lack of confidence in governmental policy, a weak real economy, low protection for minority shareholders, and an agency problem[12]. Their investment decisions were therefore largely based on an objective business analysis, rather than on an idealised vision of the Chinese government as a "phantastic object", as predicted in hypothesis 1j.

During the interviews, the Chinese fund managers often spoke positively about the government and state-run banks. It appeared that, in public, they maintained a party line, but remained free to invest their money as they saw fit. This was particularly the case in the interview with participant Chinese 52, which, uniquely, was carried out in the presence of a colleague, who insisted on being present (for confidential purposes and to establish a rapport, all interviews carried out on a one-to-one basis). This led to a very interesting result, because during the conversation, the participant heaped heavy praise on both the government and the Chinese banks:

> "Selling banks means you have no confidence in China"; "Nonperforming loans are just a temporary problem; we need to look beyond the current difficulties and focus on the bigger picture. China is going through a structural change, and we need to give the banks more time to recover."

However, he also stated that he did not invest in Chinese banks; he exercised due concern when making investment decisions, opting to utilise an objective business analysis, rather than be influenced by the idealised vision he had described under the pressure of his colleague. His praise therefore felt like a public declaration of loyalty to the government in front of a government censor. In another interview, having expressed the view that hidden risks within the banking system may materialise or even explode in the future, participant

[12] In corporate finance, an agency problem usually refers to a conflict of interest between a company's management and the company's stockholders. The manager, acting as the agent for the shareholders, or principals, is supposed to make decisions that will maximize shareholder wealth even though it is in the manager's best interest to maximize their own wealth.

Chinese 61 asked, “This is for your own academic research? You won’t quote me? It’s anonymous, right?”

This finding regarding contradictions in the relationship between Chinese investors and the state, is echoed by Hertz (1998). She argued that China’s stock markets, taking the form of the trading crowd, are one of the very few social spaces existing outside the primary opposition between the State and the People. In other words, within this space, Chinese investors are “capable, not of opposing the State, but of ignoring it” (Hertz, 1998, p.190)

Similarly, with the Western participants, their preference for investing in Chinese state-run firms was mainly due to corporate governance or business-related factors, rather than because of an unrealistic faith in the Chinese government’s ability as a “phantastic object” to provide support to these firm. Their cited reasons included the ease of understanding these businesses, the availability of information, and the presence of steady dividend payments. This may explain why only a small proportion of Western fund managers (27%) said they believed that the Chinese government is able to strongly influence the stock markets - the second aspect of hypothesis 1j.

This finding has also been echoed in a previous quantitative study exploring differences in investment characteristics between foreign funds operating in China and domestic Chinese funds (Liu et al., 2014). Researchers found that foreign funds tend to rely on corporate governance indicators and have a preference for firms with a high percentage of state-owned shares, while the reverse is the case for domestic funds.

5.3.2 Situating the Findings Within a Theoretical Perspective

The findings of this study, which investigated investment fund managers’ attitudes to state-related analysis, could potentially be situated within a theoretical framework that could serve to further enhance our understanding.

We found that Chinese and Western participants in Study 2 were not significantly different in their attitude to policy and political analysis, and neither were they significantly different in their perceptions of the state. This seems to

point to a general relationship between the market and the state, regardless of the eco-cultural context. Thus, potentially, a legal theory of finance (LTF) perspective could offer a suitable framework.

LTF operates on the premise that the modern financial system is characterised by the fundamental features of uncertainty, liquidity constraints, and potential instability. It holds that financial markets occupy "an essentially hybrid place between state and market, public and private" (Pistor, 2013, p. 315). The analytical framework of LTF has four key elements. First, financial markets are characterised as rule-bound systems that comprise a complex web of interlocking commitments and contractual obligations, coordinating and disciplining various market entities' interests and behaviours over time. Financial markets are legal constructions built upon and intertwined with the governance institutions that generate and enforce relevant laws, regulations, policies, and contracts. Second, financial systems are not state or market, public or private, but essentially a hybrid of both. Third, the financial system is inherently hierarchical, and power is a salient feature of financial governance, to the extent that hybridity, hierarchy, and power are essential features of modern financial governance, regardless of the culture involved. Indeed, some of the participants in Study 2 reflected on the universality of state power in the markets. For example, at the end of his interview, a seasoned Western fund manager offered:

> "You have to consider the political environment as a whole. I don't know if it is about political analysis being carried out more in one region over another. It is wrong to assume that someone coming from the West would find it easier to understand the US or Anglo-Saxon system compared with the Chinese system. There is considerable political power everywhere; the fate of the company can be impacted depending on administrative favour and rules of law. **Every region has rules of the law**. It's not a question of more in one location and less in another" (Western 66)

The final key element of LTF suggests that laws and regulations can be a source of financial instability. On the one hand, in turbulent times, the rigid full enforcement of legal and regulatory policies can exacerbate instability under the constraints of uncertainty and liquidity, on the other hand, under more ordinary conditions, some aspects of legal and public policies may distort

incentives, spur regulatory arbitrage, and breed financial instability. Indeed, some of the participants in Study 2 spoke about their negative opinion of the Chinese government's failed attempts to rescue the markets during the 2015 crisis:

> "What it leads to is bubbles. We took the opportunity to reduce our positions (during the Chinese government's intervention in 2015)." (Western 68)

> "When the market is going to fall, nothing can stop it. It happened in Spain 20 years ago; it happens all the time. Too many people are trying to do things. The Chinese government asked brokers to hold, not to sell (in 2015). Even that, cannot stop it falling. In 1998 in the Asia crisis, the Hong Kong government did the same. They bought 3 billion, to stop the markets falling. Perhaps if the fall is already big enough, and the price is close to its true value, it would stop anyway." (Western 65)

> "The failed rescue of the capital markets by the government, recently in 2015, showed that the government could not control the markets as they did the economy; they could only influence the market trend for a very short time period." (Chinese 52)

5.4 LIMITATIONS

Although some of the findings of this study are comparable with previous empirical studies as well as with the legal theory of finance, they are subject to a number of limitations. First, the quantitative data was derived from a relatively small sample of qualitative interviews (n=30). Nevertheless, according to Gaskell (2000), the upper limit for the number of required individual interviews for a single researcher should be in the region of between 15 and 25, the sample size in the current research is thus more than required. Secondly, being comprised of retrospective accounts and personal perceptions about investment decisions, the data was also subject to the general limitations of such investigations, irrespective of sample size. Thirdly, the coding and interpretation of the textural data was a subjective process and therefore prone to bias. Attempts were made to ameliorate the potential effects of this through the use of multiple researchers and a quantitative assessment of the reliability of the coding procedures.

5.5 CONCLUSIONS

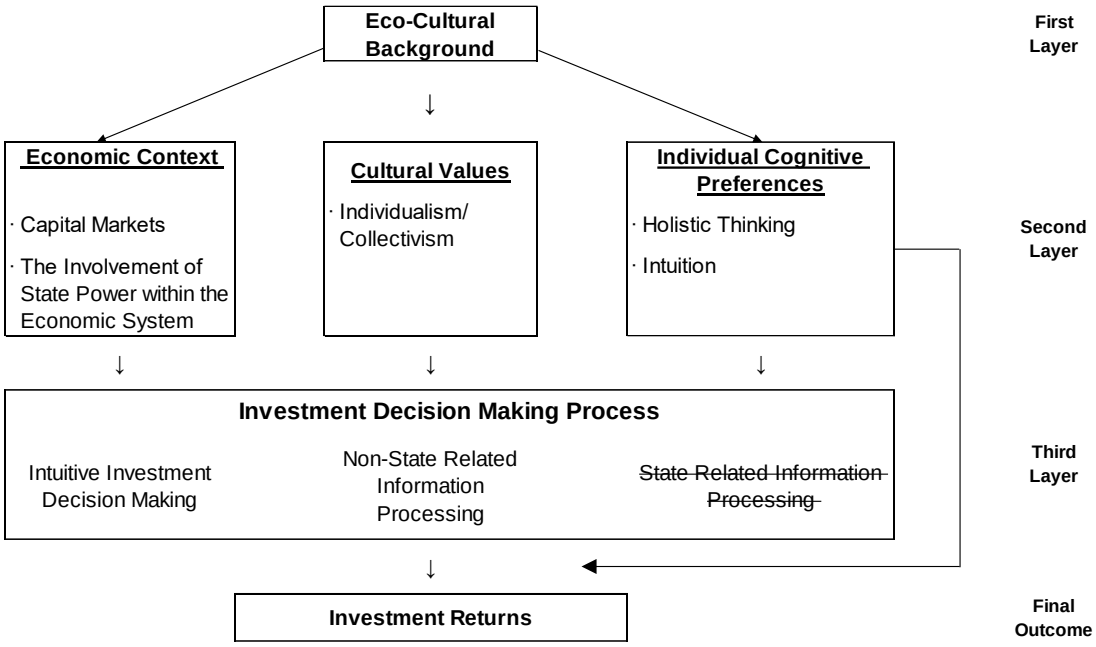
The aim of Study 2 in this chapter was to explore the influence of eco-cultural background on investment behaviours wherein the processing of state related information is a major concern. In this way, the influence of the involvement of state power within the economic system was considered. Although a handful of researchers have explored best practices in political and policy analysis (Chevalier & Hirsch, 1981; Haendel & Jordan, 2019), to date, cross-cultural differences in state related information processing have been relatively unexplored, despite the prevalent influence of the state on the markets (Pistor, 2013). Thus, an examination of state related information processing by Chinese and Western fund managers would seem pertinent.

Previous research reported that individual Chinese investors not only pay attention to the role of the state, but are “primarily” subject to “the fetishization of the state”. Moreover, they have also been observed to utilise intuitive guesswork and rumour in regard to policy and political analysis (Hertz, 1998). Although some similar behaviours were found among Chinese professional managers (e.g., Chinese 41) in Study 1, by adopting a more vigorous data analysis approach in Study 2, the hypotheses that Chinese and Western fund managers differed in these behaviours was found not to be supported. The methods described by participant Chinese 41 in Study 1 were thus found to be an exception. In contrast to established Western practice, such apparently irrational processes make colourful stories. Concentrating on these specific occurrences rather than the broad picture, however, gives an exaggerated impression (Phelps & Krabuanrat, 1999).

In summary, in contrast with Hertz’s study (1998), the findings of this chapter indicate that Chinese and Western professional investors are not significantly different in their attitude to policy and political analysis nor in their perceptions of the state. Thus, referring to the conceptual framework first proposed in Chapter 1 (see Figure1, p.30), the two hypotheses regarding state-related analysis in the investment decision making process can be removed (for an updated version of the framework see Figure 4 below). As a result, a further

investigation of these two hypotheses, including mediation/moderation tests, was not incorporated in Study 3.

Figure 4: Updated Flow Map of Hypotheses in the Conceptual Framework



CHAPTER 6: Examination of Research Question 2 and Research Question 3

6.1 INTRODUCTION

The overall aim of this thesis is to examine whether investment decisions made by fund managers from China and the West are different (Research Question 1); if so, are these differences due to economic context, cultural values or cognitive preferences? (Research Question 2); further, how are these differences related to investment returns? (Research Question 3). Chapters 3, 4 and 5 have examined Research Question 1 in detail. According to the discussions in these three chapters, and as found in Studies 1 and 2, investment decisions made by Chinese and Western fund managers are different in five aspects: attention to macroeconomic information (hypothesis 1c), preference for a top-down approach (hypothesis 1d), average stock holding period (hypothesis 1e), methods of management evaluation (hypothesis 1g), and preciseness in investment procedure (hypothesis 1h). The first four investment behavioural differences were again found to be supported in Study 3; in addition, Study 3 found that Chinese and Western fund managers differed in their holding periods for losing stocks (hypothesis f).

Having identified these supported investment behavioural differences across cultures, the first aim of this chapter is to explore Research Question 2. In other words, to discover if these differences across cultures are due to economic context, cultural values or cognitive preferences, as predicted in hypothesis 2. Hypotheses 2a, 2b and 2c were formulated to examine if the observed differences in the investment decision making process of Chinese and Western managers were due to cultural values or cognitive style, i.e., the mediation effects from cultural values or cognitive style. The basic assumption was that eco-cultural background constitutes a general context that encourages certain cultural values and cognitive preference that, in turn, lead to these investment behavioural differences (hypotheses 1c – 1g). Hypotheses 2a, 2b and 2c were quantitatively tested in Study 3.

In addition, hypotheses 2d and 2e were devised to examine the influence of fund managers' understanding of or beliefs about economic context in their

investment decision making, including domestic and foreign economic context. These two hypotheses were tested by a qualitative analysis of the interview data from Studies 1 and 2 to determine whether the factors underlying the relationship between eco-cultural background and the observed investment behavioural differences (hypotheses 1c, 1d, 1e, 1g, and 1h) were related to fund managers' beliefs or concerns about the relevant economic context. Thus, if particular features of capital markets or state power in the economic system were commonly mentioned during the interviews, it would be a good indicator of economic context being a significant influence.

The second aim of this chapter relates to the final research question (Research Question 3): How are these observed differences (hypotheses 1c – 1g) related to investment returns? Study 3 investigated correlational relationships between investment returns and the supported investment behavioural differences, as predicted in hypothesis 3. Further, it examined the moderation effect of cultural values and cognitive thinking on the relationship between these investment behaviours and investment returns, as predicted in hypotheses 4a – 4c. As moderators, cultural values and cognitive style are expected to influence the manner in which certain investment behaviours relate to investment returns across cultures.

6.2 EXAMINATION OF HYPOTHESES 2A, 2B and 2C

2a: The relationship between eco-cultural background and investment behaviours is mediated by individualistic cultural values

2b: The relationship between eco-cultural background and investment behaviours is mediated by collectivistic cultural values

2c: The relationship between eco-cultural background and investment behaviours is mediated by holistic thinking tendency.

In Study 3, survey questions relating to the cultural values and cognitive style of individual fund managers were posed. The quantitative scores derived from these enquiries were used to test the mediation effects of cultural values and cognitive thinking on five investment behavioural differences posited by the

five supported hypotheses 1c – 1g. The basic assumption was that eco-cultural background constitutes a general context that encourages certain cultural values and cognitive preference that would thus lead to certain investment behaviours. To take one investment behavioural difference as an example: hypothesis 1c: preference to macroeconomic information, then hypotheses 2a, 2b and 2c can be translated as follows:

2a_1c: The relationship between eco-cultural background and attention to macroeconomic information in the investment decision making process is mediated by individualistic cultural values.

2b_1c: The relationship between eco-cultural background and attention to macroeconomic information in the investment decision making process is mediated by collectivistic cultural values

2c_1c: The relationship between eco-cultural background and attention to macroeconomic information in the investment decision making process is mediated by holistic thinking tendency.

6.2.1 Participants

Please refer to section 4.3.1 for detailed information regarding the participants in Study 3.

6.2.2 Procedure

Please refer to section 4.3.2 for detailed information regarding the procedure used in Study 3.

6.2.3 Measures

In addition to the five measures relating to investment behaviours mentioned in section 4.3.3, to test hypotheses 2a, 2b and 2c, measures relating to holistic cognitive preference and cultural values were required. The two listed below are existing measures, which have been utilised in other studies.

The Holism Scale (HS). Constructed by Choi et al. (2003), there are ten items in this measure for general cognitive tendency. Some items are verbatim copies of those used by other scholars (e.g., Chang & Holt, 1991; Nisbett et

al., 2001; Peng & Nisbett, 1999) to describe holistic versus analytic reasoning. In Choi's original paper (Choi et al., 2003), items were rated from 1 (strongly disagree) to 7 (strongly agree). In the current survey, items were rated from 0 (don't agree) to 5 (strongly agree) to maintain consistency with other parts of the questionnaire. All items represented holistic thinking without negatively phrased items (i.e., items representing analytic thinking). Therefore, a high score indicated a greater tendency towards holistic thinking. This instrument used in cross-cultural research (i.e., Norenzayan et al., 2002) has proven to be valid and reliable.

The Individualism–Collectivism Scale. Constructed by Sivadasa et al. (2008), there are 14 items in this measure for cultural values. The collectivistic cultural value dimension is measured with eight items, e.g., "My happiness depends very much on the happiness of those around me", "I feel good when I cooperate with others". The individualistic cultural value dimension is measured with six items, e.g., "I enjoy working in situations involving competition with others", "I enjoy being unique and different from others in many ways". In the current survey, the items were rated from 1 (don't agree) to 5 (strongly agree). Mean scores were computed for collectivistic values and individualistic values, respectively. Higher mean scores indicated stronger collectivistic or individualistic values.

As previously noted, to assess the countries involved in this research, rather than using the value scores of individualism and collectivism derived by Hofstede (1980) or other existing studies, the intention behind the use of the Individualism–Collectivism Scale in the current survey was to account for fund managers' individual differences. The aim was to overcome some of the weaknesses of previous cultural finance research, in which participants' value priorities were predicted (or assumed) on the basis of either country-focused assessment or conventional thinking about East-West differences. These views regarding the personal endorsement of cultural values from the cultural surroundings have yet to be effectively tested (Becker, et al., 2014). Furthermore, the Individualism–Collectivism Scale is able to measure two cultural values dimensions simultaneously, which is important because an

individual in a particular cultural context may be orientated towards two opposite cultural values at the same time: individualistic and collectivistic. Certainly, the black-and-white portrayal of Westerners as individualists and non-Westerners as collectivists would be insufficiently complex (Neff, 2003).

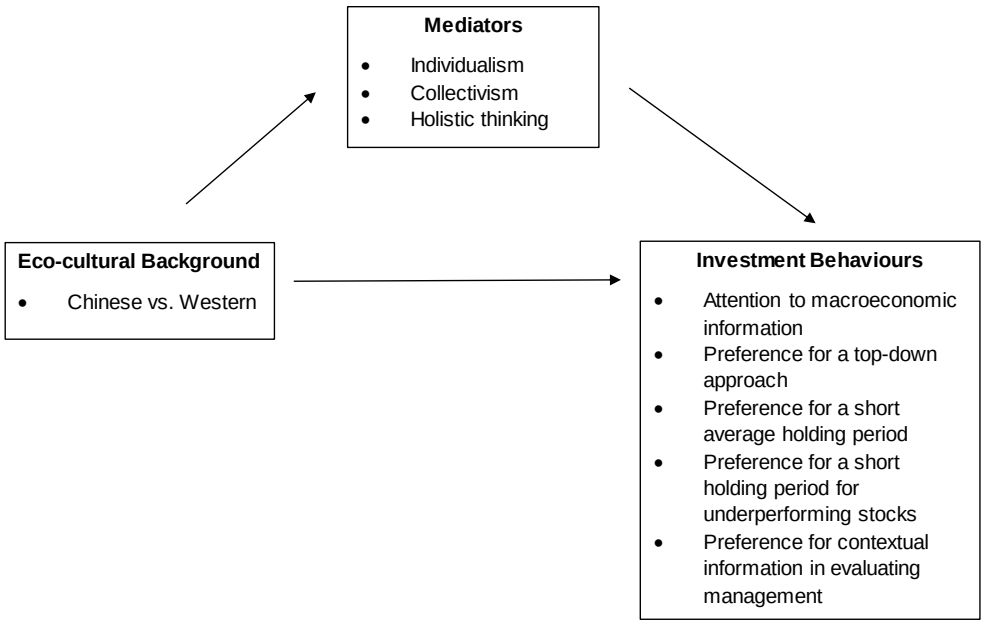
6.2.4 Results

As a preliminary analysis, before testing hypotheses 2a – 2c, it was necessary to test cultural group differences concerning cultural values and cognitive thinking, that is, the scores for individualism, collectivism, and holistic thinking tendency. Consistent with past research, the Chinese participants were found to be significantly more holistic in their cognitive thinking (M=4.84, SD=.62) than Western participants (M=3.99, SD=.87), $t(144) = 7.50$, $p < .001$, $d = 1.13$. Similarly, the results showed that the mean score for collectivism was significantly higher for Chinese participants (M=4.56, SD=.67) than for Westerners (M=4.05, SD=.80), $t(182) = 4.70$, $p < .001$, d =.69, which is also consistent with past research. However, remarkably, at the same time, the mean score for individualism was also significantly higher for Chinese participants (M=4.85, SD=.57) than for Westerners (M=4.44, SD=.75), $t(149) = 4.11$, $p < .001$, d=.62. The finding that Chinese participants endorsed both collectivistic and individualistic cultural values is illuminating.

In order to test the mediation effects of individualistic and collectivistic cultural values and holistic thinking on the investment behaviours posited by the five supported hypotheses (1c – 1g), I used SPSS PROCESS macro. As shown in Figure 5 below, eco-cultural background was specified as the independent variable and the five supported investment behavioural differences served separately as the dependent variables. There were three mediators: individualism, collectivism and holistic thinking. The tests therefore examine if eco-cultural background has an indirect effect through individualistic and collectivistic values and holistic thinking on investment behaviours. It is necessary to put all three mediators in the same model, because if these three mediators affect one another, considering the mediators one at a time would fail (VanderWeele & Vansteelandt, 2014). Recent advances in the causal

inference literature on mediation have enabled testing of multiple mediators simultaneously.

Figure 5: Mediation Effects of Cultural Values and Cognitive Style



As there were five dependent variables (hypotheses 1c – 1g) and three mediators (the cultural values of individualism and collectivism, and holistic cognitive style), it meant that 5 sets of mediation analysis were performed, while three mediators were considered simultaneously with each dependent variable.

The results revealed only one significant indirect effect of eco-cultural background on attention to context in management evaluation (hypothesis 1g) through the mediator, collectivistic cultural value (b= .196, t= 2.273). Furthermore, the direct effect of eco-cultural background on attention to context in management evaluation in the presence of the mediator was also found to be significant (b= -1.17, p<.001). Hence, the collectivistic cultural value partially mediated the relationship between eco-cultural background and attention to context in management evaluation. Because the direct and indirect effects are significant and point to an opposition, it indicates a competitive partial mediation. In other words, although Western fund managers tend to pay less attention to context in management evaluation, for those Western fund

managers who score highly in collectivism value scores, such behavioural differences between Chinese and Western fund managers might be muted. Hypothesis 2 was therefore supported regarding the mediation role played by collectivistic cultural values on the relationship between eco-cultural background and attention to context in management evaluation. The mediation summary is presented in Table 15 below.

Table 15: Mediation Analysis Summary

Total Effect (Culture -> Management Evaluation)		Direct Effect (Culture -> Management Evaluation)		Relationship	Indirect Effect	Conference Interval		t-statistics	Conclusion
						Lower Bound	Upper Bound		
-1.11	****	-1.17	****	H2: Culture -> Collectivistic Value -> Management Evaluation	.196	.049	.391	2.273	Partial Mediation

****p < .001

6.3 EXAMINATION OF HYPOTHESES 2D and 2E

2d: The relationship between eco-cultural background and investment behaviours is mediated by fund managers' understanding of the domestic economic context.

2e: The relationship between eco-cultural background and investment behaviours is mediated by Western fund managers' understanding of the foreign economic context.

To examine hypotheses 2d and 2e, I followed the thematic analysis method (Braun & Clarke, 2006; Clarke & Braun, 2017) to evaluate the qualitative interview data from Studies 1 and 2. The aim was to discover whether the rationales behind the fund managers' investment behaviours (hypotheses 1c, 1d, 1e, 1g, and 1h) were due to their understanding of or beliefs about

economic context, in this case, the domestic market context. For Western participants in Studies 1 and 2, investing in the Chinese markets meant that they had to deal with two economic contexts: domestic and foreign. A qualitative analysis of the descriptions the Western fund managers provided regarding their investment decision making process had the aim of evaluating whether these decisions were more influenced by the Chinese markets or their domestic Western markets.

6.3.1 Participants

Please refer to sections 3.2.1 and 4.2.1 for detained information regarding the participants in Studies 1 and 2, respectively.

6.3.2 Materials and Procedure

Please refer to sections 3.2.2 and 4.2.2 for detailed information regarding the materials and procedure utilised in Studies 1 and 2, respectively.

6.3.3 Data Analysis

The goal of this qualitative analysis was to conduct an examination of each individual participant's construed realities or reasons behind their specific investment behaviours. Thus, it was to identify major patterns within a theme relating to a supported hypothesis (hypotheses 1c, 1d, 1e, 1g, and 1h), called themes-within-a-theme, i.e., the sub-theme. Sub-themes are useful for giving structure to a particularly large and complex theme, and also for demonstrating the hierarchy of meaning within the data (Braun & Clarke, 2006). In the current study, the sub-themes had the purpose of capturing the meanings or reasons in relation to the research question, therefore they were intended to resolve why Chinese and Western fund managers behaved in the way they did.

The thematic analysis method suggested by Braun and Clarke (2006) and Clarke and Braun (2017), which was adopted here, involves a constant back and forth movement between the entire data set, the coded extracts of data that one is analysing, and the analysis of the data that one is producing. Repeated comparison leads to the revision of sub-themes, the collapsing of

sub-themes, and ensuring that data units are best reflected in assigned sub-themes.

The process starts by assembling all relevant data identified by a particular analytic interest, i.e., the core themes or supported investment behavioural differences derived from the hypotheses (1c, 1d, 1e, 1g, and 1h) to create a data set. Taking the first theme, “macroeconomic information analysis” as an example, as we are interested in how the analysis of macroeconomic information was discussed by the participants, the data set would consist of all the instances that had some relevance to this topic across the entire data corpus from Studies 1 and 2. In most cases, the data set contained the coded or rated chunk of data in relation to the core theme in Studies 1 and 2 for the purpose of testing the relevant hypotheses (1c, 1d, 1e, 1g, and 1h). The qualitative analysis software NVivo was used during the analytical process to assist with organising, re-arranging and managing a considerable amount of interview data. The use of computer software to aid in the coding process is now mainstream for qualitative theorists. For example, Castleberry (2014) has commented that NVivo makes it possible for researchers to code data around common themes.

6.3.4 Findings

The analysis revealed that fund managers’ understanding of domestic economic context played a significant role in shaping their investment decisions. It appeared that, in relation to their investment decisions, Chinese fund managers investing in Chinese markets, often cited the country’s macroeconomic or regulatory situations. On the other hand, when investing in the Chinese markets, Western fund managers, faced with a foreign market context, often relied on the investment strategies or knowledge they had gained from their managerial experience and training in their domestic market, the so-called “domestic mindset” (Nadkarni & Perez, 2007). The following section will discuss the key reasons for each behavioural pattern separately and in detail (for illustrative quotes provided by fund managers during data collection for Studies 1 and 2 see Appendix I and J, nb., numbers 1-74 in

parentheses refer to participants based on the sequence in which they were interviewed).

6.3.4.1 Rationales Behind Chinese Fund Managers' Behaviours

The five tables listed in Appendix I illustrate that the Chinese participants were acutely aware of Chinese market contextual factors in their individual investment decision making, as shown in the analysis of the reasons provided for having a preference for macroeconomic information (hypothesis 1c), a top-down approach (hypothesis 1d), short stock holding period (hypothesis 1e), preference for contextual information in evaluating management (hypothesis 1g) and a less precise investment procedure (hypothesis 1h).

Hypothesis 1c: Attention to macroeconomic information

The list below highlights three reasons given by the Chinese fund managers that macroeconomic information may be more useful than microeconomic information:

- Lack of good corporates to choose from in the Chinese markets.
- The influence of Chinese governmental policy on sector performance is overwhelming.
- Insufficient time to do firm specific analysis due to rapidly changing market conditions.

Hypothesis 1d: Preference for a top-down approach

The list below highlights three key reasons given by the Chinese fund managers as to why a top-down approach may be more accessible mentally than a bottom-up approach:

- Political news or official speeches are powerful tools in identifying investment opportunities in China.
- Herding or examining market price patterns are powerful tools in identifying investment opportunities in China.
- In the Chinese markets the homogenous nature of companies within a sector makes a top-down approach more suitable.

Hypothesis 1e: Preference for a short average holding period

Chinese fund managers often blamed performance pressure for their use of short holding periods. Nevertheless, during interviews, many Western fund managers admitted that they had a screen gazing habit (checking up on how their invested stocks are doing), an indication of the pressure of unrealistic targets, as noted by Tuckett and Taffler (2012). Although it is beyond the scope of the current research to examine in detail whether Chinese or Western managers are suffering from different degrees of competitive pressure, the impression I received during the interviews is that, more often than not, Chinese managers were subject to some unrealistically high return targets. For example, Chinese 48 commented, "China's stock markets are very special, some techniques from the West cannot be applied. For example, in the West, a 30% return is already good enough, but in China, it is not enough." As a result, within the Chinese managerial community the job turnover ratio was far higher and job security was lower than for Western fund managers. This trend was also indicated by the participants' demographic distribution in the current research: Chinese participants had considerably shorter investment experience than Western participants. The list below highlights seven key market contextual reasons given by the Chinese fund managers as to why they had to trade more often:

- Uncertainty due to policy direction causes excessive trading.
- In China, restrictions on shorting strategies causes reluctant purchasing activity.
- In China, the power of too many retail investors causes excessive trading activity.
- Performance pressure or competition among peers causes excessive trading.
- Tendency for short termism among clients reduces average holding period.
- The volatile market causes excessive trading.
- In China, due to a lack of protection for small shareholders, managers do not have faith in the long-term growth potential of public-listed firms.

Hypothesis 1g: Preference for contextual information in evaluating management

As described in Chapter 2, cognitively, the Chinese tend to use situation-centred explanations of behaviours (Morris & Peng, 1994) and are more context sensitive than Westerners (Masuda & Nisbett, 2001), which may explain why Chinese managers would opt for a more context-based, holistic approach for the evaluation of corporate management. However, there are also significant market contextual factors leading to this tendency among Chinese fund managers. As the literature review also highlighted, the creation of the current form of China's capital markets was first and foremost a political experiment under the heavy influence of the country's specific social-economic environment, particularly its transformation from a planned economy to a market economy (Hertz, 1998). As a result, managers from state-run firms often suffered a conflict between the so-called "three old committees" (the party committee, the employee representative committee, and the workers' union) and "three new committees" (meetings of the shareholders, the board of directors, and the supervisory committee). In some cases, the conflict between the party secretary and the top manager (such as the chairman of the board) was so severe that it interfered with the enterprise's normal operations (Qian & Wu, 2003). Moreover, the issuance or IPO system of China's capital markets is a non-transparent administrative approval mechanism rather than a market-oriented pricing mechanism (Zhen, 2013). As a consequence, it may favour Chinese state-run firms at the expense of private firms. Thus, it seems that the path to be publicly listed in the capital markets is significantly different for China's state-run and private firms. Taken together, managers in different firms may have a different combination of issues to engage with on a daily basis and, therefore, a different set of skills may be required by managers from state and private firms.

The list below highlights the reasons why the Chinese fund managers interviewed had to distinguish corporate managers based on the ownership, size, and sector of a firm.

- Management in Chinese state-run and private firms is different.

- Management in different state-run firms could be different.
- Management in different sectors could be different.
- Management in firms with competitive advantages is different from others.

Hypothesis 1h: Preference for a less precise investment procedure

The reasons for the Chinese fund managers reporting a less precise investment procedure are revealed in Table 5 in Appendix I. According to those interviewed, the investment process cannot be precise; it is, in some ways, an artistic and intuitive process, because within the context of the Chinese capital markets in which performance evaluation and rapid change create great pressure, there is a necessity to make quick decisions. Moreover, any quantitative or detailed models are redundant in the face of the rampant accounting fraud committed by Chinese companies. Thus, the managers appeared to be convinced that a less precise investment process is best suited for investing in the Chinese markets. The list below offers their five key reasons (for detailed quotes see Table 5 in Appendix I):

- The differences in performance evaluation between Chinese and Western markets make Western regulations redundant in China, including differences in return benchmarks and peer ranking pressure.
- The rapidity of change in the Chinese markets makes effective Western regulations redundant in China.
- Accounting frauds in Chinese companies make quantitative models redundant.
- Investment is an art not a science.

6.3.4.2 Rationales Behind Western Fund Managers' Behaviours

When Western participants were asked about their investment behaviours in relation to the Chinese markets, they often followed the same process utilised in their domestic market (see the five tables listed in Appendix J). During the interviews, these participants often mentioned the words, "conviction" or "confidence". For example, a Western fund manager commented that:

> "I do believe that it is important to run a concentrated and high conviction portfolio … and have confidence in your investment." (Western 66)

Consequently, it was revealed that his strong belief and confidence stemmed from the investment strategy he developed based on his experience of investing in his domestic market; it appears that the use of similar investment behaviours supports a sense of conviction in decision making within a foreign market.

Hypothesis 1c: Attention to firm specific information

The list below highlights five key reasons given by Western fund managers as to why they would make an investment decision. As the list shows, these reasons are all related to micro (i.e., firm-specific) information; it seems that analysis of company specific information helps to build a sense of conviction and confidence in investment.

- A good business model.
- Launch of a new product or plans to expand.
- Sound company governance.
- A companies' devotion to social responsibility.
- Analysis of company specific information helps to build strong conviction and confidence in investment.

Hypothesis 1d Preference for a Bottom-Up Approach

The reason that Western fund managers adopted a bottom-up approach is because their rational decision making was based on a reliance on quantitative models or locating a good quality business. It seems that finding a good business provides them with a sense of conviction and confidence in their decisions because it is a practice they typically rely on in their home market.

- Quantitative model or the quality of business are important for rational decision making.

Hypothesis 1e: Preference for a long holding period

Western fund managers opted for a relatively longer stock holding period in both Western and Chinese markets in order to maintain a consistent investment approach, such as a stop-loss policy for losing stocks (stocks will only be sold after prices hit certain targets). For example, Western 10 said, “We have policies about stop-loss positions. We don’t allow a position to lose more than 20%. There is another rule: we don’t allow portfolios that have many stocks down by 15%-20%.” In other situations, the reason for holding stocks was because the long-term growth potential of publicly listed companies was very good, which is also consistent with the global investment philosophy of Western managers. Here are five reasons provided by the Western participants:

- The long-term growth potential of the invested company is very good.
- It is the investment company’s policy to hold for a long time.
- No association should exist between performance pressure and short holding periods.
- Dividend payments are the reason for long-term holding.
- An automatic stop-loss threshold was in place to sell losing stocks.

Hypothesis 1g: Preference for a consistent criterion for evaluating management

Despite awareness of the differences in the management of China’s state-run and private firms, Western fund managers maintained their domestic methods - such as the use of checklists, integrity checks, and shareholder protection standards – without paying much attention to the context.

- Although management in state-run and private firms is different, personal integrity is important.
- Checklists and signs of shareholder protection are useful tools for management evaluation.
- Visits or management evaluations are not relied upon, because personality cannot be assessed solely by these means.

Hypothesis 1h: Preference for a more precise investment procedure

The reasons given by Western fund managers for using a more precise investment procedure are illustrated in Table 5 in Appendix J. When it comes to investing in Chinese companies, Western fund managers relied on a consistent and well-defined process, not only to build conviction in the investment, but also to gain competitive advantages among peers, which is a practice they typically rely on in their home market. According to Western 63:

> "When we invest in developed markets and emerging markets, we try to make the investment process as similar as we possibly can. Certainly, the intention is that they should be similar."

As pointed out in the literature review (see Chapter 2), the professional fund management industry associated with the Western markets has a much longer history of development in comparison with the emerging markets in China. As a result, fund management has become a much more standardized business in the West, with fund managers needing to convince their clients (perhaps also themselves) by using solid and well-structured investment plans in order to win business and survive. Here are two examples (for detailed quotes see Table 5 in Appendix J):

- A well-defined process helps managers stand out from the crowds and provide them with a competitive edge.
- A consistent and well-defined process helps build faith and confidence in the investment.

6.4 EXAMINATION OF HYPOTHESES 3 and 4

Correlations

Hypothesis 3: Investment behaviours that are found to differ significantly across cultures may be correlated to investment returns

Moderation Effects

Hypothesis 4a: The relationship between investment behaviours and returns is moderated by fund managers' individualistic cultural values

Hypothesis 4b: The relationship between investment behaviours and returns is moderated by fund managers' collectivistic cultural values

Hypothesis 4c: The relationship between investment behaviours and returns is moderated by fund managers' holistic thinking tendency.

As part of the survey in Study 3, individual fund managers were asked about investment returns. The returns representing investment outcome were used to test the correlational relationships and moderation effects of cultural values and cognitive thinking on the investment behavioural differences posited by the five supported hypotheses (1c – 1g). As moderators, cultural values and cognitive style are expected to influence the manner in which certain investment behaviours relate to investment returns across cultures.

6.4.1 Participants

Please refer to section 4.3.1 for detailed information regarding the participants in Study 3.

6.4.2 Procedure

Please refer to section 4.3.2 for detailed information regarding the procedure used in Study 3.

6.4.3 Measures

In addition to the five measures relating to investment behaviours mentioned in section 4.3.3 and the two measures relating to cultural values and cognitive style mentioned in section 6.2.3, the testing of hypotheses 3 and 4 required an additional measure relating to investment returns.

Investment Returns. The current research used fund managers' self-reported raw returns as a measurement of performance. Participants were asked to fill in annualized portfolio returns from the past six years in percentage terms. The calculation was based on the simple average figure.

Instead of market-adjusted returns (Goodwin, 1998), Jensen's alpha (Jensen, 1968), or risk-adjusted performance (Fama & French, 1993), raw returns were used in the current study for following reasons. First, this type of return is

popular among fund managers, the key players in the asset management industry. One fund manager who participated in the survey preferred absolute returns (or raw returns), explaining, “We always say that relative returns do not pay for the food on your table.” Second, a raw returns measure is also commonly used in the academic literature, for example, Sengupta (2003) and Anderson et al. (2004), who employed raw returns in their analysis of funds’ efficiency.

6.4.4 Results

In the examination of hypothesis 3, Pearson correlations between the five supported investment behaviours (1c – 1g) and investment returns were calculated (see Table 16, below). The results indicate a negative correlation between average holding period and investment returns, while the other four investment behaviours show no correlation with investment returns.

Table 16: Correlations Between Investment Returns and Investment Behaviours

Investment Behavious	Pearson Correlation Coefficients	*P value*	
Hypothesis 1c_Macroeconomic Information	.07	.46	
Hypothesis 1d_Top-Down Approach	.12	.17	
Hypothesis 1e_Average Holding Period	-.21	.02	**
Hypothesis 1f_Holding of Losing Stocks	-.08	.43	
Hypothesis 1g_Management Evaluation	.11	.23	

**p < .05

In the examination of hypotheses 4a, 4b and 4c, I used hierarchical linear model regressions to examine the hypothesized moderating effect of cultural values and holistic thinking in the significant relationship between investment behaviours and investment returns, as suggested by hypotheses 4a – 4c. 15 separate tests were required for the five different investment behaviours (hypotheses 1c – 1g) with three moderators (individualism, collectivism, and holistic thinking), respectively. To minimise the chance of Type I error, Bonferroni correction was applied. With an adjusted $\alpha = .003$, it turned out that there was only one significant moderating effect, i.e., the moderating effect of holistic thinking (the moderator) on the relationship between average holding period (hypothesis 1e) and investment returns, as evidenced by a significant

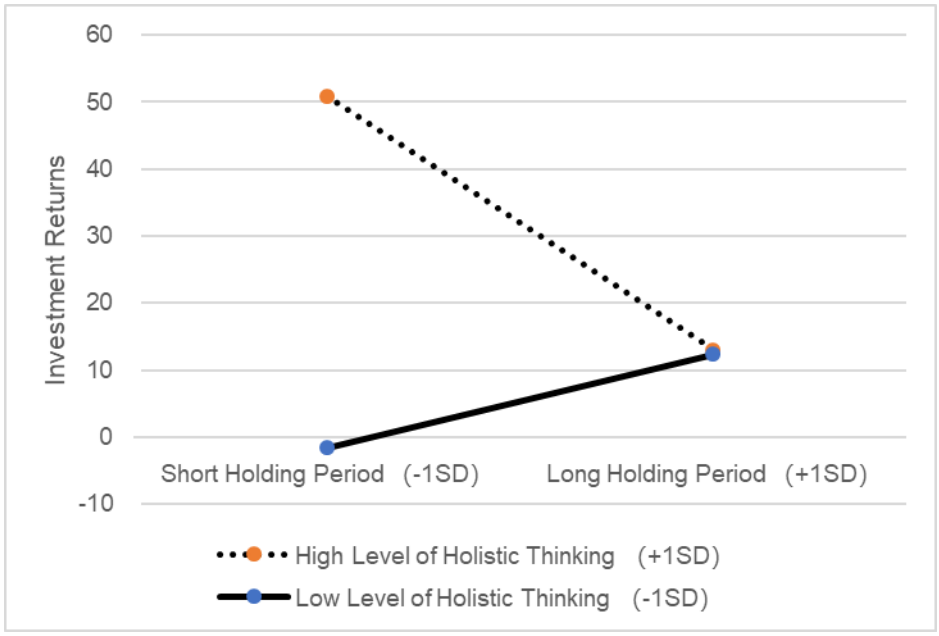
interaction effect (P<.001) (see Table 17, below). The simple slopes analysis (see Figure 6, page 175) shows that the negative relationship between the holding period and investment returns only really emerges in participants with greater than average levels of holistic thinking.

Table 17: Moderation Effects of Holistic Thinking: Hierarchical Linear Model Regression

	Fund Returns		
	Model 1	Model 2	Model 3
Independent Variables			
Holding Period	-0.207 **	-0.107	-0.153 *
	(0.16)	(0.16)	(0.16)
Holistic Tendency		0.336 ****	0.364 ****
		(3.68)	(3.53)
Holding Period *Holistic Tendency			-0.294 ****
			(0.20)

Note: Numbers in parenthesis are standard errors. * p < .10, **p < .05, ****p < .001.

Figure 6: Simple Slope Analysis of the Moderation Effect



6.5 DISCUSSION

The aim of the following discussion is twofold. First, the discussion will review illuminating findings derived from the survey in Study 3 about individual participants' cultural values and cognitive style preference. Secondly, this discussion will compare the findings from the examination of hypotheses 2, 3, and 4 with the past literature. As the findings described in this chapter form a key element of this research, their implications and limitations will be chiefly discussed in the final chapter of this thesis.

Discussion of Scales Relating to Cultural Values and Cognitive Style

As revealed in the preliminary analysis of the results from testing hypotheses 2a – 2c (section 6.2.4), Chinese participants endorsed both collectivistic and individualistic cultural values. This finding therefore reinforced previous arguments that cultures cannot be categorised as having simple orientations (Killen, 1997; Sinha & Tripathi, 1994; Triandis, 1995).

One way to explain the coexistence of individualistic and collectivistic values is to view these two cultural values not as a dichotomy, but as two ideal types or idealised cultural scripts at opposite poles of a continuum (Greenfield & Cocking, 2014). Therefore, each society is said to strike a specific balance on the continuum between the two ideal types, which in turn translates into different proportions of individualistic and collectivistic elements. Such a position has been espoused by Sinha and Tripathi (1994), who referred to India's exposure to diverse cultural influences through invasions as being responsible for the coexistence (in India) of both individualistic and collectivistic orientations. A similar view underlies explanations of the coexistence of diverse orientations in the United States (Greenfield & Cocking, 2014).

Due to individuals' interactions with diverse aspects of their social environments (Killen & Wainvyb, 2000), an alternative way to explain this finding is to locate the source of heterogeneity at the level of the individual rather than at the level of society (Helwig, 1987; Nucci & Lee, 1993; Turiel et al., 1995; Wainryb & Turiel, 1995). As a result, individuals within cultures may

simultaneously hold multiple and often conflicting concerns regarding independence and interdependence (for reviews, see Smetana, 1995; Tisak, 1995). For example, Neff (2003) found that participants from Chinese and American cultures endorsed both interdependent and independent self-construal as descriptive of themselves. In the current study, Chinese fund managers might be subject to more diverse social environments than their Western counterparts due to China's rapid economic growth and social changes. As a result, in contrast to Western managers, they tended to embrace both individualistic and collectivistic values.

Discussion Based on the Testing of Hypotheses 2A – 2E

In examining hypotheses 2a, 2b and 2c, the current research has parsimoniously tested individualism and collectivism in the cultural values channel and tendency for holistic thinking in the cognitive thinking channel, because past research has shown that individualism and collectivism are the most relevant cultural values and holistic thinking is the most relevant personal variable in the decision making process. It was found that the individualistic value and holistic thinking are not mediators, while the collectivistic value played a mediation role in the relationship between eco-cultural background and only one investment behavioural difference: attention to context in management evaluation (hypothesis 1g).

In contrast, in testing hypotheses 2d and 2e, the thematic analysis of interview transcripts in Studies 1 and 2 revealed that fund managers' understanding of economic context, particularly the domestic economic context, is the key factor explaining the differences in all five investment behaviours between Chinese and Western fund managers (hypotheses 1c, 1e, 1g and 1h). The qualitative data analysis suggests that economic context, particularly the condition of a fund manager's domestic market, might fruitfully be applied in future research. This conclusion was further reinforced in Study 3, because in the survey, all participants were asked if they would behave the same or adopt similar investment styles when investing in different markets. The majority of both Chinese (71%) and Western fund managers (67%) answered that they would "behave the same." This finding adds credence to the importance of domestic

market conditions as suggested by some management research (Nadkarni & Perez, 2007; Bruneel et al., 2018).

Thus, as outlined in the current chapter, the findings from the examination of hypotheses 2a – 2e could potentially be situated within a theoretical framework that could serve to further enhance our understanding of these findings.

In the international entrepreneurship literature, “domestic mindset” theory is based on the premise that past experiences shape mindsets, which can influence future strategic actions (Martins & Kambil, 1999; Thomas et al., 1993; Weick, 1995). The theory holds that complex domestic mindsets developed through domestic experiences could lead to knowledge and procedures, which help firms identify critical differences between domestic and foreign markets and leverage domestic resources and strategies for use in the latter. The contention that firms use their existing mindsets to evaluate new stimuli is well recognised in the organisational learning literature (Keisler & Sproull, 1982; March & Simon, 1958; Martins & Kambil, 1990). Such cognitive representations of action–outcome relationships take the form of rules of thumb and internally shared decision heuristics that encapsulate experiential insights into which information is important and what action the firm should undertake in order to accomplish a given goal (Bingham, 2009; Gavetti & Levinthal, 2000; Nadkarni & Narayanan, 2007). Hence, prior experience in the domestic market leads to habits, cognitions and behaviours that influence firm performance when called upon in a different context (Dokko et al., 2009).

With respects to the findings of the current research, it is possible to suggest that many Western participants in the interview studies (Studies 1 and 2) have developed a mindset based on their investment experiences in the Western domestic market; this mindset helped them to make their investment decisions in the Chinese markets. Domestic market contextual factors are vitally important in determining the extent to which decisions are perceived as being convincing, the existence of shared tacit understandings (which may be referred to as “organisational culture”), and their impact on decision behaviours. For example, during the investigation of hypotheses 1c, 1d, 1e, 1g, and 1h, which were supported by the data, most of the Chinese fund

managers' decision making was strongly influenced by the Chinese domestic market context (see section 6.3.4). In a similar manner, when Western participants in the interview studies operated in the Chinese markets, they adopted the investment behaviours which were very often influenced by their Western domestic markets (see section 6.3.4). During the interviews with Western participants, "conviction" or "confidence" were often-mentioned catchwords. It appears that maintaining consistency in their investment behaviours helps them to build a sense of conviction in their decisions in a foreign market. Moreover, as all the Western participants were working for funds headquartered in the West, it would often be the norm for them to maintain the same investment strategy across different markets due to the influence of their organisational culture, which was embedded in the Western domestic market. For example, a Western fund manager commented that it was company policy to hold stocks for a relatively long time.

Overall, although it seems that domestic mindset theory can help to enhance our understanding of the findings of this chapter, it is beyond the scope of the current research to investigate in detail the influence of a fund manager's prior domestic experience on their overseas role. It could, however, prove a fruitful field for future investigation.

Discussion Based on the Testing of Hypotheses 3 and 4

As shown in the analysis of results from testing hypothesis 3, the majority of investment behavioural differences were unrelated to investment returns. The only significant relationship between one investment behaviour (i.e., the choice of holding period in supported hypothesis 1e) and investment returns was then subject to the moderation effect of a personal cognitive style (i.e., holistic thinking), as shown in the results from testing hypotheses 4a – 4c. Thus, it could indicate that cultural background matters less to investment performance than we originally thought.

Furthermore, the finding that the personal cognitive style of holistic thinking had a moderating effect on the relationship between investment behaviour (i.e., the choice of holding period in supported hypothesis 1e) and investment returns, invites finance researchers to add a further dimension to personal

factors, that is, holistic thinking, when explaining investment returns, in addition to fund managers' age (Chevalier & Ellison, 1999), cultural origin (Jiao, 2020), social connection (Cohen et al., 2008) and geographic proximity (Pool et al., 2015).

It is thus expected that fund managers with holistic cognition are likely to be successful when the holding period is short but less successful when it is long. According to Hofstede's research (2005), Chinese culture is more long-term oriented than Western cultures. What is more, cultural psychologists have found that holistic cognition may be related to long-term orientated culture (e.g., Choi, et al., 2003). Taken together, one should expect that Chinese fund managers would perform better if the holding period is long. However, the finding in the current research points to the opposite. Therefore, while the findings from cultural psychologists were all based on empirical investigations and were drawing on the experiences of different cultural groups, given that the context of the current research is financial decision making, it would perhaps not be unreasonable to speculate that some empirical results from cross-cultural studies on decision making may not apply to the financial markets.

In contrast, as an attempt to test various theories from cultural psychology to the financial markets, Ji et al. (2008) conducted laboratory research among Chinese and Canadian university students. They found that under hypothetical scenarios, the Chinese participants were more willing to buy and less willing to sell failing stock than the Canadian students. The explanation given for this difference was that, influenced by cultural traditions, the Chinese participants were able to predict the likelihood of further changes, and were more likely to anticipate a reverse in the trend towards failing stocks, resulting in a greater inclination to buy. According to Ji et al.'s (2008) research, the Chinese tend to predict changes more often than Westerners (because they are more holistic), and, as a result, such predictions may be more accurate regarding short-holding periods for under-performing stocks, as in the current research, resulting in better returns. This clearly requires a much more rigorous

investigation and suggests a very exciting new research area, which I will discuss further in the final chapter.

6.6 CONCLUSION

The overall aim of this thesis is to examine whether investment decisions made by fund managers from China and the West are different (Research Question 1); if so, are these differences due to economic context, cultural values or cognitive preferences? (Research Question 2); further, how are these differences related to investment returns? (Research Question 3). Based on the findings relating to Research Question 1, which were outlined in the previous three chapters, the current chapter has further examined Research Questions 2 and 3.

The results of this examination have shown that the observed behavioural differences between Chinese and Western fund managers described in the previous three chapters, particularly Chapter 4, were mainly due to the influence of fund managers' own understanding of or beliefs about their domestic economic context. Thus, the findings in the previous literature concerning differences in individualistic cultural values and holistic thinking of individuals do not apply to the investment decision making process, although they were significant factors in other decision making situations (Yates et al., 2016). What the current study has identified is that differences in investment decision making across cultures stem from the fact that Chinese investors apply their local knowledge of the way the market works, while Western investors behave as usual in other markets, the so-called "domestic mindset" theory.

The findings described in this chapter are also distinctive in that they show eco-cultural background matters little to investment outcome, as most cross-cultural investment behavioural differences are not correlated with investment returns, and the only investment behaviour (i.e., choice of holding period) can influence investment returns via the moderator of personal characteristics (i.e., holistic thinking). In other words, the negative relationship between the holding period and investment returns only really emerges in participants with greater than average levels of holistic thinking. Given the dearth of research focusing

on the investment experiences of fund managers from within a cross-cultural integrated framework, as well as the prevalence of cross-border investment, these findings are crucial.

CHAPTER 7: GENERAL DISCUSSION

7.1 GENERAL DISCUSSION

The current research was undertaken to answer three questions: (i) Do investment managers from different cultures approach investment decision making differently? (ii) To what extent can differences in economic context, cultural values, and cognitive thinking influence decision making? (iii) How are these differences related to investment returns? To address these questions, I established a cross-cultural model of equity investment decision making (See Figure 1, p.30) and tested it in two cultural regions (China and the West) using a mixed-method approach. Given the nature of the research, a combination of both quantitative and qualitative methods was deemed optimal, as it could provide an especially sensitive and powerful means to investigate systematic cross-cultural comparisons. Qualitative approaches provide valuable insight into cultural meaning and the phenomenological “feel” of social life, and quantitative methods facilitate hypothesis testing and sophisticated modelling of social and behavioural phenomena (Dabic, et al., 2015; Schrauf, 2016).

As stated in the rationale for the current research, although previous research has provided surface level comparisons, such as a comparison of investment characteristics of funds managed by Chinese and foreign fund managers (e.g., Liu et al., 2014), correlational analyses of relationships between quantifiable variables and national cultural values (e.g., Chui et al., 2010), and very compelling accounts of decision making in cross-cultural contexts beyond equity investment (e.g., Mitchell et al., 2000), there has been little literature involving comprehensive qualitative data and analysis which attempts to describe and explain cross-cultural investment in the financial sector. In light of this, I sought to present a more nuanced and detailed understanding of cross-cultural investment decision making over-and-above the picture provided by descriptive surveys and correlational analyses with the aim of complementing the extant body of research.

The current research is limited by the early stage of development in theory and measures as well as by the sampling frame. Accordingly, some caution is

warranted in the interpretation of the results. These are somewhat conservative, however, as the effects of regional economic, industrial, regulatory, or other social context influences on investment behaviours were not quantitatively measured, despite these factors being qualitatively captured and examined. Furthermore, the author is aware that other intervening factors may moderate or mediate the relationships between eco-cultural background, investment behaviours and performance. However, since my intent is to be parsimonious regarding theory building (Bacharach, 1989), I limited the number of factors to those that are considered most relevant to this phenomenon and that have been shown to contribute significantly to the current understanding of investment decision making. In addition, as indicated in section 1.2 Definition of Eco-cultural Background, the matter of culture is so complex that no single concept can adequately capture the subject in its entirety. For the purpose of investigating influences of cultural background on decision making, this thesis has adopted the definition of culture based on the research in cultural psychology, and coined the term “eco-cultural background”. However, the author is acutely aware of the multifaceted nature of culture, and the extent of the overlap between economic and cultural factors. Finally, only two cultural groups were examined, with study participants representing China and the West. Although this work of comparison is richly informative and important, the generalizability of these findings to other cultural groups may be limited.

Despite these limitations, the current research successfully demonstrates that fund managers from different cultural regions differ in their investment decision making process, particularly in their analysis when the power of state is not a major concern. Through the survey in Study 3, I found that individualistic cultural values and holistic thinking tendency do not influence the relationship between eco-cultural background and investment behaviours, while collectivistic cultural values played a mediation role in the relationship between eco-cultural background and only one investment behavioural difference: attention to context in management evaluation (hypothesis 1g). It was further found that the eco-cultural impact on investment decision making is explicated via the influence of economic context, particularly fund managers’

understanding of the domestic economic context. Noticeably, the implication of the important effect of fund managers' understanding of the domestic economic context was confirmed directly by two findings. First, the qualitative analysis of the interview transcripts with fund managers in Studies 1 and 2 revealed that Chinese fund managers, investing in Chinese markets, often cited macroeconomic or regulatory situations in China for their investment decisions. On the other hand, Western fund managers, faced with a foreign market context when investing in Chinese markets, often relied on the investment strategies or knowledge they had gained from their managerial experience and training in domestic markets to make investment decisions in Chinese markets. Thus, in the case of Western fund managers, the economic context of their domestic markets plays an important role in their decision making. Secondly, in the investigation of intuition in Chapter 3, it is found that Chinese fund managers tended to use intuition more often than Western fund managers during the investment decision making process, however, they were not significantly different in their cognitive preference for intuition. It is therefore concluded that differences in using intuition during the investment decision making process relate more to contextual factors rather than cognitive factors. The overall conclusion that the contextual factors are important is consistent with the wide variety of investment practices that can be observed across borders. I further found that in some cases the personal variable (i.e., holistic thinking) moderated the relationship between investment behaviour (i.e., stock holding period) and investment returns. These results have implications for and contribute to theory building, investment practice, investors' education and training, and policy making.

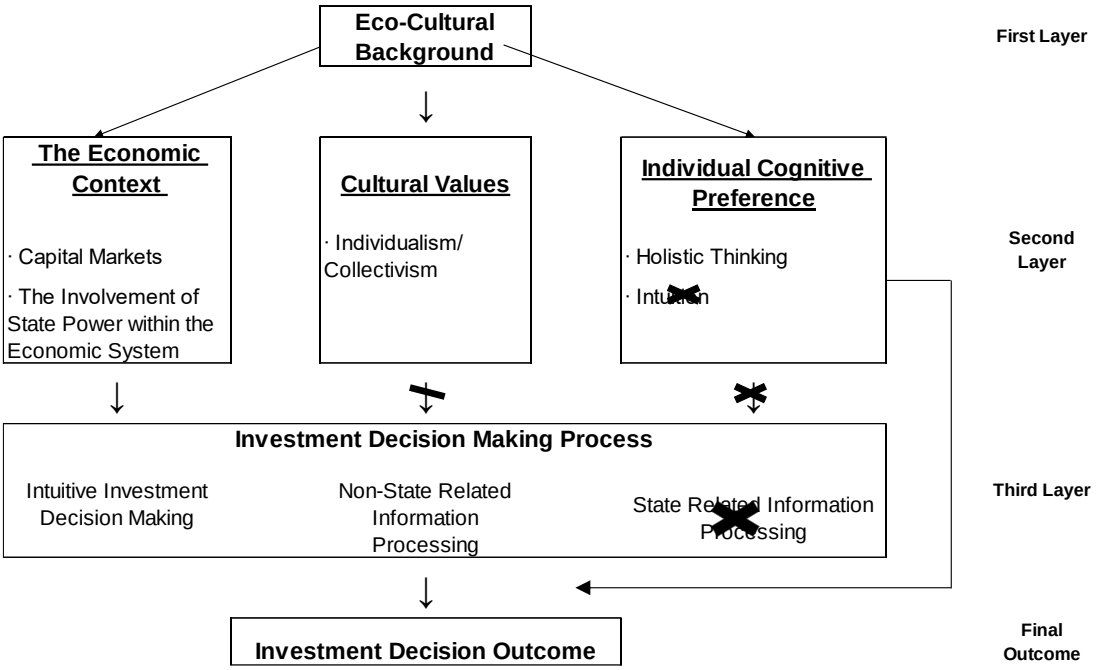
Hence, the central framework of the current research which has been highlighted throughout the thesis, such as section 1.4, section 2.5, and section 5.5, can be updated in Figure 7 (see page 188). As it shows, hypotheses in the current research are divided into three groups. The first group hypotheses (ten hypotheses from 1a to 1j) were to answer the first research question, "How are Chinese and Western fund managers different in the decision process". They were related to the cross-cultural differences in the investment decision making process (the 3rd layer in the figure). I have further divided these ten

hypotheses into three categories according to the key information under considered: intuition and intuitive investment decision making (hypotheses 1a and 1b), non-state related (hypotheses 1c, 1d, 1e, 1f, 1g and 1h), and state-related (hypotheses 1i and 1j). The hypothesis regarding intuitive investment decision making was supported, whereas the hypothesis regarding intuitive cognition was not supported. The contradictory findings imply that the actual use of intuition is not always synonymous with cognitive ability or intuitive preference. Six hypotheses regarding to non-state related investment analysis are mostly supported, except for hypothesis 1h regarding the precision of investment procedure where there is a discrepancy between the interview finding and survey reports. These supported hypotheses highlighted the important impact of eco-cultural background on financial decision making. Two hypotheses regarding state-related investment analysis were not supported, as it is found that Chinese and Western professional investors were not significantly different in their attitude to policy and political analysis, and were also not significantly different in their perceptions of the state. This seems to point to a general relationship between the market and the state, regardless of the eco-cultural background (Pistor, 2013). Hence, these two hypotheses were discounted in Figure 7.

The second group hypotheses (2a - 2e) were established to answer the second research question: “Why are Chinese and Western fund managers different?” Its aim was to investigate the effect of the second layer (i.e., economic context, cultural values, and cognitive thinking) on the relationship between the first layer (i.e., eco-cultural background) and the third layer (i.e., the investment decision making process). Since the findings in the current research highlighted the important role of economic context, the line drawn between economic context and the investment decision making process was kept intact. In addition, it was found that one out of the two cultural values investigated in the current research played a mediation role in the relationship between eco-cultural background and only one investment behavioural difference across culture: attention to context in management evaluation (hypothesis 1g). As a result, the channel of cultural values was half discounted, while the channel of cognitive thinking was completely discounted - see Figure 7.

The third group hypotheses (hypothesis 3 and hypotheses 4a - 4c) were established to answer the third research question: “How are these behavioural differences related to investment returns?” Its aim was to investigate the moderation effect of the second layer (i.e., cultural values and cognitive thinking) on the relationship between the third layer (i.e., the investment decision making process) and the final outcome (i.e., investment returns). Since the findings from the survey study indicate the moderating role of holistic thinking on the relationship between average stock holding period (hypothesis 1e) and investment returns. Thus, the line drawn between the second layer, third layer and the final outcome is kept intact.

Figure 7: The Final Updated Conceptual Framework after Removing All Unsupported Hypotheses



Within cultural finance research, there exists a real and continuing need for additional theory building (Karolyi, 2016). Within the current research, my aim was to develop the current literature by collecting individual level cultural value data and employing an integrated framework to consider the influence of eco-cultural background on behaviours. In so doing, I expand the emerging cultural perspective on investment by arguing that economic context, rather than cultural values or cognitive thinking, explains behavioural differences between fund managers with different eco-cultural backgrounds. I find that the multitude of apparently heterogeneous factors in national cultural values and cognitive thinking, which have in the past been thought to affect the decision making of individuals in various countries, may, in reality, not as strong as researchers used to think in explaining behavioural differences. My findings suggest a need to explore further dimensions within the domain of economic context in order to more fully understand the effect of culture on investment behaviours.

For example, the qualitative analysis following the thematic analysis method (Braun & Clark, 2006) of all interview transcripts (N=72 for both Study 1 and Study 2) revealed detailed reasons given by fund managers about their behaviours (see Appendix I and J). The majority of reasons mentioned by fund

managers were related to economic context, and, for the Chinese fund managers, to domestic market conditions in particular. It highlights the important role played by economic context on the relationship between investment behaviours and eco-cultural backgrounds, which is also revealed by fund managers' answers to one question in the survey in Study 3. Thus, the qualitative data in the current project can provide a foundation for further scale development as researchers proceed to assess contextual reasons for behaviours. Nunnally (1978) has suggested that theoretical progress proceeds no faster than improvements in measurement methods. The current study is a modest contribution to this effort.

Through qualitative analysis of all the interview transcripts, I found further pervasive influence of a domestic mindset on the investment process of Western fund managers who were dealing in the Chinese market. This finding is consistent with international management practices suggested by management studies (e.g., Bruneel et al., 2018; Nadkarni & Perez, 2007). In the latter context, a domestic mindset refers to the knowledge structures of the top management team prior to starting international activities, based on their managerial experience and training in domestic markets (Nadkarni & Perez, 2007). As revealed in my data, when Western participants were asked about their investment behaviours in relation to Chinese markets, they often followed the same process used in their domestic market. During the interviews, these participants often mentioned the words, "conviction" or "confidence". For example, a Western fund manager commented:

> "I do believe that it is important to run a concentrated and high conviction portfolio … and have confidence in your investment." (Western 66)

Consequently, it was revealed that his strong belief and confidence comes from the investment strategy he developed based on his experience of his domestic market. It appears that using similar investment behaviours supports conviction in decision making within a foreign market. The pervasive influence of a domestic mindset was particularly implied in the survey results from Study 3 when the majority of both Chinese and Western fund managers answered that they would not change their investment behaviours across different

markets. This exploratory finding of the role played by the domestic mindset in cross-cultural investment establishes an additional empirical foundation for a cross-cultural cognitive theory of investment decision making, which may offer support in healing the still fragmented field of cultural finance. For example, the current finding that economic context is key in influencing investment behaviours suggests the possibility of resolving some theoretical difficulties that have arisen during the interpretation of various influences of the cultural value on behaviours, particularly their comprehensiveness as evaluated by their predictive capabilities (Phelps & Krabuanrat, 1999).

Furthermore, as far as the author is aware, no previous research has distinguished the differences between intuitive predisposition and actual use of intuition in decision making by professional investors from different cultural backgrounds. With this aim in mind, in the current research I have utilised both the interview and self-report questionnaire methods to reflect two different levels of cognitive processing, including context-general cognitive style - which relates to the dominant way individuals process information regardless of context - and context-specific decision-making behaviour style - which reflects the ways individuals approach an investment decision-making situation. The finding that Chinese fund managers tended to use intuition more often than Western fund managers during the investment decision making process yet are not significantly different in their preference for intuitive decision making style, has significant implications for the international investment fund sector; it suggests that differences in using intuition during the investment decision making process relate more to contextual factors rather than cognitive factors. In a multi-cultural team, different preferences in intuitive decision making behaviour may compound the difficulty of reaching a consensus in investment decision situations. Based on the findings of this research, it appears that to achieve a good level of cooperation between team members from different cultural backgrounds, having a similar level of understanding of the local market may be more important than cognitive or affective factors. Thus, business education and training for fund managers should aim to develop an acute awareness of the investment market context and the skill to use intuition and analysis according to these specific conditions.

My findings also have relevance in the substantive domain. For policy makers who are seeking to encourage or discourage particular behaviours, it is clear that investment decisions are made in light of economic context (however this is defined within a country). Thus, previous suggestions that the role of policy making is to improve the efficacy of the transacting environment are reinforced (Mitchell, 1992). For Chinese fund managers, it is useful to know that, contrary to conventional wisdom, their counterparts from the West, as represented in Studies 1 and 2, employ a domestic mindset when investing in the Chinese markets.

How do these findings impact the finance literature? The results of the current research invite finance researchers to add a further dimension to personal variables, that is, holistic thinking, when explaining investment returns, in addition to fund managers' age (Chevalier & Ellison, 1999), cultural origin (Jiao, 2020), social connection (Cohen et al., 2008) and geographic proximity (Pool et al., 2015). Future researchers may productively consider how the mechanics of holistic thinking affect investment returns. Ji et al. (2008), for example, have argued that when a stock price was falling, Chinese participants were less willing to sell and more willing to buy due to their holistic cognitive tendency. My findings show that a long holding period negatively impacted investment returns for fund managers with a higher holistic tendency. Therefore, it may be advisable to suggest that fund managers who are generally very holistic in their thinking should trim their holding period in some situations, especially when stocks are making negative returns.

In view of the findings of the current research, we see a need for the finance literature to move forward in the clarification and analysis of likely performance-enhancing cognitive techniques for the use of both practicing and potential fund managers. As noted earlier in the paper, the literature contains many correlational analyses of relationships between investment performance and national cultural values (e.g., Chui et al., 2010). The introduction of a culture-related holistic thinking tendency to investment activities (Ji et al., 2008), which the current research has confirmed and extended, suggests a path towards further analysis and explanation of high-performance investment

behaviours. Furthermore, as previously highlighted, my results confirm similar findings from the field of management studies that an investor's cognitive mindset relates to the conditions of their domestic market. This raises the possibility of encouraging a coherent cognitive mindset among the members of culturally diverse investment teams, which may be achieved by developing an acute awareness of the common investment market context. A potential focus for future research would be a rigorous theoretical investigation of the principles that explain this seemingly stable finding.

In the context of the international finance literature, my study suggests several specific questions that are in need of further investigation. First, to what extent do cross-cultural experiences lead to change in the domestic mindset? Jiao (2020) suggests that the impact of the domestic cultural value on fund managers declines in relation to the duration of their experience overseas. How does this finding relate to my suggestion that fund managers may not change their investment behaviours when they venture into different markets? Another area where further investigation is called for is determining and mapping the extent of cross-border investment behaviours so as to identify their similarities and differences. Do the differences have a theoretical foundation in the same way that the similarities appear to? To this end, the questionnaire instrument designed for Study 3 in this research may be applicable to cultures other than China and the West as part of a much larger scale survey. It would facilitate the creation of a global map illustrating the differences in investment behaviour around the world, and potentially lead to the development of a global investment behaviour index system. This index system would provide valuable guidance to international investors in understanding different investment behaviours around the globe.

Finally, I identify a real need to investigate the extent to which cross-border investment leads to globalisation in general. Could an understanding of the cognitive structure of fund managers as shaped by domestic market conditions provide additional theoretical and empirical links to the information revolution and globalisation? On the other hand, could the findings that Chinese and Western fund managers were not significantly different in their attitude to policy

and political analysis, or in their perceptions of the state at least offer a little hope or support to the convergence debate in globalisation? (e.g., Bullmore, 2000; Czincota & Ronkainen, 2013) As pointed out in Chapter 5, faced with a different political regime, Chinese fund managers have found ways to make a compromise: they openly praise Chinese state-run companies, whilst shying away from investing in them based on business risk analysis. Similarly, Hertz (1998) argued that China's stock markets, taking the form of the trading crowd, are one of the very few social spaces existing outside the primary opposition between the State and the People. In other words, within this space, Chinese investors are "capable, not of opposing the State, but of ignoring it" (p.190).

To conclude, the theory and methods of the current research offer new pathways for the understanding of investment decision making in a cross-cultural setting. Specifically, the task of uncovering differences in investment behaviours is valuable for a more subtle explanation of a cross-cultural model of investment decision making. Theoretically, the domain of economic context requires enrichment through the inclusion of further dimensions and examination at a lower level of abstraction. Practically, the findings of the current study suggest that cross-cultural differences in investment may be more pronounced than previously believed and these differences occurred due to economic context within the decision making process, rather than because of cultural values or personal cognitive influences. Social differences across cultures may in fact be hindering globalisation – and economic context seems to be more fixed than values or personal cognitive variables despite every improvement in information technology. Furthermore, to improve understanding of the successes and failures of various groups of fund managers, researchers might productively investigate the impact of the individual differences I have identified, and other potential new framing of differences at the personal level, such as risk-taking, and achievement motivation, etc. (Busenitz & Lau, 1996).

With the rise of the global economy and information age, international fund management – allocating capital across national borders (Tuckett, 2011) – has gained momentum, certainly faster than explanations of its intricacies by the

social sciences. Yet, as Winston Churchill is reputed to have said, “It would be an inconvenient rule, if before anything could be done, everything had to be done.” In this spirit, I, along with other scholars, have begun to propose models of global investment that take the powerful theoretical engines provided by recent advances in the study of cultural psychology (Hofstede & Hofstede, 1991; Peterson et al., 2012; Yates & de Oliveira, 2016) and anthropology (Hertz, 1998; Siu, 2008; Zaloom, 2006) and combined them with work in cross-cultural investment (Jiao, 2020; Liu et al., 2014). The result is an exciting new field, cultural finance, with myriad opportunities for scholarship based on the study of the international asset management institutions that offer the promise of growth, new jobs, increased wealth, and innovation for a new millennium. The current results suggest an outline for addressing at least some of these opportunities.

7.2 FINAL WORDS – MY PERSONAL REFLECTIONS

I began my thesis with an intuition that there might be differences in investment decision making between Chinese and Western investors due to cultural influences. I had some knowledge about financial investment, and as a Chinese studying and working in the UK for nearly two decades, I was constantly aware of my cultural upbringing and the different behaviours it might imply compared with my Western friends or colleagues. Having now spoken with many Chinese and Western fund managers through the interviews and survey that I conducted, and from reading extensively around the literature in this area, I have now learnt a great deal, not only about the differences cultural background can cause in terms of behaviours, but also the implications that these different behaviours can lead to.

I have learnt that different investment behaviours are closely related to economic context, such as the stage of economic development, capital market environment, the institutions people are working within and the markets in which they first developed their investment skills. I have learnt that people from different cultural backgrounds may hold different cultural values or cognitive thinking preferences, and yet these have an insignificant impact on investment behaviours. I have also learnt that differences in behaviours do not matter as

much as we originally thought in relation to investment performance, because most behavioural differences across cultures do not correlate with investment returns.

There is only one investment behaviour that seems to be correlated with investment performance, however, its impact on returns was moderated by some personal characteristics. For example, although Chinese and Western fund managers preferred different stock holding periods, differences in holding period may not necessarily lead to differences in returns: a long holding period would only negatively impact investment returns for fund managers with a higher holistic tendency. This is because a holistic thinking tendency may lead to unnecessarily long holding periods for loss-making stocks, which could in turn hurt performance. Thus, the general rule for success seems to be matching your unique personal strength with your behaviours. In other words, to understand your strengths and weaknesses, and behave in a way that fully utilises the strengths and minimises the weaknesses. As a result, cultural upbringing should not be a barrier for success or an excuse for failure in performance in any market. This has been my journey, to grow in cultural maturity and interculturality.

Together, the three studies conducted as part of this thesis highlight the different behaviours fund managers from different cultural backgrounds may have, and the importance of their domestic market economic context on their decision making at home and abroad. This is important given that cross-border investment has become more and more common and fund managers arguably need to compete more often with other managers from different cultural backgrounds. Indeed, from conducting the interviews and survey with participants from both China and the West, I felt that all those involved were very interested to know how their counterparts from different cultural backgrounds were operating. Given the secretive nature of the fund management industry there is very little communication between fund managers of the same cultural origin, let alone from different cultural backgrounds. The participants of this research therefore showed great interest in my research and were eager to know the results. To some extent, they were

an important factor that motivated me to complete this long journey, because I felt I owed them an answer.

Overall, while the findings of this thesis have their limitations, primarily relating to issues of sampling, they nonetheless have clear implications for fund managers operating on the global stage. Crucially, the findings of the studies suggest that these fund managers often want to and could clearly benefit from understanding themselves and their competitors better. Thus, the current research seems particularly pertinent and crucial. In the words of the ancient Chinese military general, strategist, and philosopher, Sun Tzu: “If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle.” In financial investment decision making, where fund managers face constant and heated competition domestically and internationally, the enemy in question is not limited to their peers, but also to managers from a different cultural background. As a result, the practical implications of the current research stand to be of great significance.

APPENDIX A: Participant Information Sheet and Consent Form for the Interview Study

Information Sheet

Title of Project: Cultural Influences on Investment Decision Making.

This study has been approved by the Ethics Chair of the Division of Psychology & Language Sciences.

Project ID Number: CEHP2015_534.

Dear Participant,

I am conducting a Ph.D. research project that aims to advance understandings of how cultural influences could feature in investment decision-making by Chinese and Western fund managers. To this end, I am undertaking interviews with both Western and Chinese equity fund managers.

You are being cordially invited to participate in this research project. Before you decide whether to take part, please read the following information carefully and discuss it with others if you wish. Please do not hesitate to ask me if you would need any further clarification or information.

Introduction

There are many differences between Chinese and Western cultures. In an era of international financial systems and markets, it has become a valid question to enquire whether and the extent to which culture plays a role in the investment decision-making process of fund managers.

The research project's objectives are to:

- Provide the first comparative account of the process by which Chinese and West fund managers reach their decisions in relation to investment of Chinese stocks;
- Identify any cultural influences in investment decision-making and weigh these against other socio-economic reasons;
- Use the research findings to inform fund managers' understandings of their decision-makings and to assist international financial institutions in their recruitment of fund managers for investing in the Chinese market.

Interviews

I am undertaking a series of interviews with Western and Chinese equity fund managers whose investment portfolios include Chinese companies (A shares, H shares, red chips, L shares, and S shares, etc.) and have at least 2 years of portfolio selection and decision-making responsibility. To keep variability to a minimum, they are active equity managers using fundamental analysis for stock selection. The interviewees are asked about their past investment experiences in Chinese equities, including specific examples of success stories, investment approach and daily practices.

The interview could be conducted face to face or via the telephone and will be arranged to best accommodate your busy schedules. For face-to-face interviews, the interviewees will be interviewed either close to, or, at their place of work. Interviews typically last between 30 and 45 minutes although shorter interviews can be arranged to suit your other commitments.

Permission will be requested from participants to record discussions using a digital voice recorder. All transcripts and notes (unless otherwise agreed) will be anonymised by removing names and identifying characteristics of individuals and organisations.

Research Ethics

It is up to you to decide whether or not to take part. Choosing not to take part will not disadvantage you in any significant way. Even after agreeing to take part, you can still withdraw at any time and without giving a reason. All data will be handled according to the Data Protection Act 1998 and will be kept anonymous.

Benefits of Participating

In return for taking part in the research project, I will send you email bulletins of the key findings from the research project and offer you the chance to shape the future direction of the ongoing research.

Kind regards,

Haili Wu, PhD Research Student

Consent Form

Title of Project: Cultural Influences on Investment Decision Making.

This study has been approved by the Ethics Chair of the Division of Psychology & Language Sciences.

Project ID Number: CEHP2015_534.

Participant's Statement:

I agree that I have

- read the information sheet and/or the project has been explained to me orally;
- had the opportunity to ask questions and discuss the study; and
- received satisfactory answers to all my questions or have been advised of an individual to contact for answers to pertinent questions about the research and my rights as a participant and whom to contact in the event of a research-related injury.

I understand that I am free to withdraw from the study without penalty if I so wish, and I consent to the processing of my personal information for the purposes of this study only and that it will not be used for any other purpose. I understand that such information will be treated as strictly confidential and handled in accordance with the provisions of the Data Protection Act 1998.

Signed: Date:

Investigator's Statement:

I confirm that I have carefully explained the purpose of the study to the participant and outlined any reasonably foreseeable risks or benefits (where applicable).

Signed: Date:

APPENDIX B: General Interview Guide – Study 1

Opening Statement:

A. (Establish Rapport) [Shake hands] My name is … Thank you very much for making the time for the interview.

B. (Purpose) I would like to ask you some questions about your background, examples of investment decisions you have made in the recent two years.

C. (Motivation) I hope to use the research result to help fund managers better understand their decision-making process and take more control over what they are doing.

D. (Timeline) The interview should take about 45 minutes. I am going to record it, but everything is confidential. Your name or your fund's name will not be revealed in any of my writing. It is going to be an aggregated result, so no individual can be identified.

Are you available to respond to some questions at this time?

Transition: Let me begin by asking you some questions about your background.

General Questions:

"When did you first hold portfolio management responsibility?"

"Please describe your formal background, your qualifications, and your cultural background?"

"What is the benchmark and who are the clients?"

Key Questions:

SEMI-STRUCTURED INTERVIEW QUESTIONS

- Which two portfolio decisions you have made in the last two years that have made you feel personally most satisfied? Could you please walk me through the whole process?
- Which two portfolio decisions you have made in the last two years that have made you feel personally most dissatisfied?
- Could you describe how you made your most recent buying decision of a Chinese company?
- Could you describe how you made the decision of purchasing a Chinese company which is the largest holding in their portfolio at the time of interview?
- How do you see the differences in terms of investment styles between Chinese fund managers and Western fund managers?
- Do you do company visit? Please could you take me through what happened?
- How often do you use intuition or feeling to make decision?

APPENDIX C: Initial Coding about Intuitive Investment Decision Making for Investigations (Example)

The highlighted part of the category card refers to the theme: the relationship between intuition and analysis during a fund manager's investment decision making process. It was the initial or open coding process, the first step of data analysis.

Chinese 25's comments on the importance of feeling and intuition during investment

1. Intuition is important, but it should be used on basis of understanding my own weakness and style.
2. I do not know when or in which situation I use intuition, but it does come from time to time.
3. I have a feeling of the sector after reading a lot of reports. After having those vague ideas, I then do analysis and further research.

APPENDIX D: Summary of Themes and Sub-Themes About Intuitive Investment Decision Making in Chapter 3

Summary of Content analysis				
Category	**Sub-category**	**Participants**		**Totals**
		Chinese	**Western**	
1) Definition of intuition	Sensory, affective and holistic processes	12	1	13
	experience-based phenomenon	0	1	1
	Totals	**12**	**2**	**14**
2) Relationship with analysis	Intuition and analysis are used in tandem	14	0	14
	Intuition and analysis are blended together in different percentages	3	4	7
	Tension between them (analysis are used to get rid of intuition)	2	4	6
	Totals	**19**	**8**	**27**
Totals		**31**	**10**	**41**
3) Market contextual factors	Chinese markets are irrational, emotional, immature			
	There are many retails investors in Chinese markets			
	Hidden rules			
	Companies in Chinese markets are not very well developed			
	Information is skethy, not accurate			
	Sudden events			

APPENDIX E: Paper Published in the Journal of Behavioral Finance in 2022 Based on the Investigation of Intuitive Investment Decision Making in Chapter 3

JOURNAL OF BEHAVIORAL FINANCE
2022, VOL. 23, NO. 1, 106–122
https://doi.org/10.1080/15427560.2020.1848839

Routledge
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Intuition in Investment Decision-Making Across Cultures

Haili Wu

University College London (UCL)

ABSTRACT

Interest in the phenomenon of intuition in the fields of business and management has grown rapidly in recent years. However, whilst this subject has seen significant theoretical advances, empirical work in this area has tended to lag behind. Even fewer studies have examined intuition from a cultural and cross-cultural perspective. I studied the phenomenon of intuitive decision-making in the asset management sector through the use of in-depth semi-structured interviews ($N = 42$) and self-reported cognitive tests ($N = 30$) on a population of 72 experienced professional fund managers from both China and the West. The present research found that Chinese and Western fund managers were not significantly different in their preference for an intuitive cognitive thinking style. However, Chinese fund managers were more likely than Western fund managers to use intuition in their investment decision-making. It is thus concluded that the use of intuition is different from intuitive predisposition. In other words, individuals may have a dominant or preferred cognitive thinking style, whereas their decision-making behavior is influenced by the demands of the situation or task. Based on these findings, I update the typology of intuitive and contextual "signalling", created by [Hensman, A., and E. Sadler-Smith. 2011. "Intuitive Decision Making in Banking and Finance." European Management Journal 29 (1):51–66]. The updated typology provides a basis for practical recommendations and offers potential directions for future inquiries into this vital aspect of investment cognition and decision-making behavior.

KEYWORDS

Intuitive decision-making behavior; Cognitive thinking style; Fund managers; Cultural differences

Introduction

In an attempt to come to grips with a financial world characterized by dynamic change and increasing uncertainty, fund managers today are searching for new methods of decision-making. Authors, such as Hayward and Preston (1998), argue that linear rational models do not perform satisfactorily for businesses operating within a climate of rising pressure and ambiguity (Andersen 2000; Kuo 1998). The phenomenon of intuition has, therefore, been posited to help guide a wide range of critical decisions involving high complexity and short-term time horizons, such as corporate planning, stock analysis, and performance appraisal (Hayashi 2001; Isenberg 1984; Shirley and Langan-Fox 1996). Although there has been great interest in the role intuition may play in business and management in recent years, there is limited research available on the different ways intuition is used by professional investors from a cultural and cross-cultural perspective. It is little known whether there is any culture-specific definition of intuition when it is used as a means for decision-making. However, due to the increased internationalization of financial markets, understanding the mentality of other cultures – including factors such as intuition – has become a priority for investment practitioners and academicians.

The context for my study is the asset management industry. Investment decision-making within the financial markets is of enormous importance. A crucial function of these markets is the channeling of investment capital into certain activities over others. Thus, the decisions made by fund managers – to purchase or sell shares, government or corporate bonds, etc. – are the most important aspect of this process. Moreover, the amount of capital involved in these investment decisions is huge. For instance, a single asset management firm, BlackRock – admittedly the world's largest – controls assets totaling $3.45 trillion, which, as Kolhatkar and Bhaktauatsalam (2010) have pointed out, is more than the GDP of Germany. Against this background, a number of questions can be raised, for example: is the term intuition understood in the same way by Chinese and Western fund

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APPENDIX F: Interview Schedule – Study 2

English Version

Opening:

A. (Establish Rapport) [Shake hands] My name is ---. Thank you very much for making the time for the interview.

B. (Purpose) I would like to ask you some questions about your background, examples of investment decisions you have made in the recent two years.

C. (Motivation) I hope to use the research result to help fund managers understand better their decision making and take more control over what they are doing.

D. (Timeline) The interview should take about 45 minutes. I am going to record it, but everything is confidential. Your name or your fund name will not be revealed in any of my writing. It is going to be an aggregated result, so no individual can be identified.

Are you available to respond to some questions at this time?

Transition:

Let me begin by asking you some questions about your background.

- "Can you tell me two very satisfying purchasing investment decisions in the past two years in the Chinese markets? I am interested to know how you came across this investment, how you analysed it and what factors you think are the most important?"
- "What are your four most recent purchasing decisions in the Chinese markets? Can you walk me through the process?"

I have noticed that in the above 6 examples you gave me, some are state-run firms, and some are private firms. Does the firm's ownership matter to you?	
Percentage of state and private firms in the holdings	
Does investing in an emerging market change your investment process compared to investing in developed markets?	*Stages of your investment process?* *Political/policy analysis?*
What percentage of your Chinese holdings are in banks? Why? Are you worried about non-performing loans?	
How many hours do you listen to or read news on current affairs each day?	
How do you obtain news (what sources do you mainly use to obtain news): mainstream news channel, social chat, or private chat	

Can you **give me an investment example** where political analysis has played an important role?	
How much do you think that the Chinese government can influence the market?	1: Very much, 2: Somewhat, 3: A little, 4: Not at all

Some Ratios to Check:

Average P/E ratio	
Frequency of personal performance assessment	
Percentage of model analysis and subjective judgement	
How big is your investment universe?	
How many stocks in your holdings	
What percentage of your largest holding in the portfolio	
Do you check your performance? *How? How often? What reasons? How often do you deliver reports to clients? I have heard from someone that "looking at performance reports are very unhelpful, what do you think?"*	

Closing:

A. (Maintain Rapport) I appreciate the time you took for this interview. **Is there anything else that we have not covered, and you think would be helpful for me to know?**

B. (Action to be taken) I should have all the information I need. I also have a five-minute survey for all participants. It is to test **your thinking style** between analytical and intuitive. Would it be alright to email you after the interview? Thanks again.

Chinese Version

开始:

A. 你好。我叫武海丽。谢谢您抽时间参加到我的研究里来。

B. 我的问题包括您的学术和文化背景，并问您几个投资决策的具体例子。主要是想了解您的决策心理过程。

C. 谢谢您的支持。我希望我的研究结果可以帮助投资人更好的了解他们的决策心理，提高决策的主动性和效率。

D. 访谈大概 45 分钟左右，会录音。我保证数据的安全和匿名原则。您的姓名和单位绝不会公布给第三方。您提到的任何事情也绝不会和您或您的单位联系在一起。

那我们现在开始吧？

“你能告诉我过去两年在中国市场的两个非常满意的购买投资决定吗？我很想知道你是如何接触到这项投资的，你是如何分析它的，你认为哪些因素最重要？”

- “您最近在中国市场的四个购买决定是什么？你能讲一下您的整个思考决策过程吗？”

我注意到，您提到的 6 个例子里，有的是国有企业，有的是私有企业。请问公司所有权会影响您的投资选择吗？	
国企和私企的百分比	
相比于投资于发达国家市场，投资新兴市场会改变您的投资过程吗？	*投资过程分几个步骤？政治因素？*
您持有的所有中国公司股票中，银行股占多大成分？为什么？您担心中国银行的坏账呆账吗?	
您每天要花多长时间来了解与政策和政治有关的事实新闻呢	
您是通过什么渠道来了解事实新闻的?	
举一个政治因素分析对投资决策起重要作用的例子吧？	
您认为中国政府有多大程度上可以影响中国股市?	1: 非常重要; 2: 有些重要;3: 有一点重要 4: 不重要

一些重要指标:

平均 P/E 值	
个人绩效考核频率	
模型分析和主观判断的百分比	
去年平均换手率	
你可以投资的股票有多少？	
你现在持有多少个公司股票	
在你投资组合中第一大重仓股占多大比例	
你会检查你的基金表现吗？ 怎样检查？为什么检查？多长时间给客户发布报告？我听一些投资经理说检查基金表现对投资决策有害。您怎么看？	

结束：

A. （保持融洽关系）谢谢您的时间和帮助。访谈基本结束了。你有什么想补充的吗？

B. （将采取的行动）我还有一个发给所有参与者的五分钟调查问卷。问卷是测试思维方式的。我可以发到您的电子邮件里吗？再次感谢。

APPENDIX G: Sample Interview Transcript – Study 2

Transcript - Western 72[13]
(Randomly drawn example)

January 2014, Portfolio Fund Manager

British: Born and grew up here.

College: Economics, Fine Art, History of Art. Did not go to university.

Western 72: *When I left college, I started investing for friends and family. I had the idea to take a gap year before going to university. I borrowed money from friends and family. It seemed to be successful enough that I decided not to go to university. So, I just carried on, and I did that for five years (with friends and relatives' money) before I joined a firm.*

During those five years, I was more successful than I expected. I was 18. It was worth a go. Very small amount of money involved, 10,000. I ended up being profitable. I decided it was better than university.

I started by trading currencies, then I moved on to only US stocks.

In terms of percentage returns, it was leveraged. During that time, we quadrupled the money with a lot of leverage, which I would not do now, as I was young at that time.

[6.15 mins]

Researcher: So leverage is a double-edged sword?

Western 72: *Exactly. Because it was a very small amount of money, you could take that risk. Now I wouldn't use that. In fact, I don't use any leverage anymore.*

Researcher: It is a long-only mutual fund?

Western 72: *Our business is a hedge fund. I run a long-only portfolio, but it is a hedge fund. My fund is a trust. A UCIT trust. I have a separate offshore trust I run which is not a UCIT trust. Shares are not tradable. You cannot—we don't have a share class; it is a closed end trust.*

Then we have a proprietary trading desk here, owned by another firm, as we are FCA regulated, but the proprietary desk is not.

Researcher: You are a genius in investment, because at that young age, it must be very difficult, and you have a lot of interesting experience.

[7.47 mins]

Western 72: *I guess there was a lot of luck involved at that time. But now I have done my time learning the road. I became an analyst for a 5 billion mutual fund… it is a unit Trust, a company called ... a large investment trust in the UK.*

Researcher: What is your benchmark and who are your clients?

[13] Sample from a 20-page transcript. The full transcript is available upon request.

Western 72: *The clients are a small group of trustees, 10 very wealthy individuals. The benchmark is MSCI world ex UK. Because it is an offshore trust, we don't have UK investment. It is a global trust ex UK.*

Researcher: What is the country distribution?

Western 72: *My largest exposure is US, and then if you do it based on countries of domicile, my second largest exposure is China. However, I own ADR. Based on listings, it is still US.*

Researcher: I am interested in your purchasing decisions regarding Chinese companies, could be ADR, H share, L share or S share. Would you walk me through the process?

Western 72: *This is quite easy, because I have only owned three Chinese companies. The same three companies I own today, I have held for many years, not sold a single share. I don't plan to sell any single share.*

[10.45mins]

Western 72: *They are very big in terms of percentage of the portfolio.*

Researcher: How long have you held them?

Western 72: *I have held them since I joined here, coming up to three years. We also held them when I was an analyst in the previous firm. We had perhaps about 100 million dollars investing in these three companies. Those three companies, unsurprisingly, are well known ones: Baidu, Tencent, Alibaba. Alibaba, obviously, I only held since it came to the market. But we had held Alibaba indirectly. We had shares in Yahoo and Softbank, which are holdings of Alibaba.*

Researcher: Why did you not buy Alibaba directly?

Western 72: *Because it was not listed. It went to IPO only in 2014. The biggest IPO in US history. So, at that time if we wanted to buy Alibaba, we would have to do it via the private market. Just because of the rules of transparency and liquidity, so we did not. Because we like the company, so we bought via proxy. When it had IPO, we bought directly through ADR. Same with Tencent and Baidu.*

Researcher: I was surprised that you did not mention the biggest Chinese banks.

Western 72: *The way I invest generally is very focussed on companies that generate free cash flow. Any company that can produce (…) we consider high quality shareholder returns. It means that high returns on investment capital is pretty key to my investment. While Chinese banks may have high reported returns on equity, it is fairly opaque how they get there.*

[13.02mins]

Western 72: *A lot of leverage is involved, even though it does not show up on the balance sheets in the way it does on the Western banks' balance sheets. What I am kind of focusing on in China is and has been my thesis for many years, and I supposed it has been accepted now: China is not a two-speed economy, but an economy that separates itself and it traditionally has an awful amount of manufacturing, and it is shifting and wanting to be consumption driven. I think what people missed for many years, was that when people look at companies like Baidu, Tecent and Alibaba, they look at them and compare them with Google, Facebook and Amazon. They said that*

the quality is not good as those US names. My view of it was that the quality is not as good yet, because it is a still underdeveloped part of the economy. As it becomes more developed, these companies will benefit from that. That is still my thesis today. What I think is very interesting about them is that despite the fact that they are a growth company - I consider myself a value-investor by the way - although they are a growth company, they are traded at very attractive multiples free cashflow. Whereas they might look fairly expensive on the PE basis, these companies are growing exceptionally strongly. In the last year, Tecent grew topline over 40%, Alibaba similar amount, Baidu, separately, because it had a strange year last year, kicked people out of its network, but it is structurally growing 25-30%. But it will reaccelerate next year or so. These high-quality businesses are growing, have a lot of room to grow, generate a lot of free cashflow. I think people still mis-understand them. They represent a pretty significant part of my portfolio.

Researcher: How did you first encounter these companies? Did you have ideas to have exposure to the tech industry, or you just searched for cash flow and spotted these three companies?

Western 72: *What happened, when at the Trust, because we had a significant amount of resources, we had fund managers and a few analysts based in Edinburgh, who covered only Asia. So, they are out in Asia all the time, meeting companies. So, we have been aware of these companies for a long time really. By the time I joined the Trust, I became aware of these companies fairly early. So, the only thing we had to decide was whether it met our criterion for quality, and of course…*

Researcher: So you mean their cash flow was not satisfactory at that time?

[16.07mins]

Western 72: *It was. A few of us were integral in that decision - let's buy this stock, because it met the criterion. But…*

Researcher: You mean cashflow?

Western 72: *Not just cashflow. It means quality of business overall. Can you trust the reporting? Transparency of the reporting. Transparency is a strange thing. Transparent in terms of the things they don't tell you. In terms of the things they tell you but are hard to figure out. I think with the Chinese companies, especially those three, they tell you a lot of things that are quite complex, hard to figure out, but they don't necessarily hide stuff from you. That's important. Because once we did the work on them, we actually realised we understood them. Whereas a lot of people to this day really don't understand these companies. I sit in meetings with analysts, they tell me something about Alibaba and it is totally wrong, because they misunderstood the way they presented their data.*

Researcher: How can you understand things better than analysts?

Western 72: *It is one of things when you know you know something. Quite often they were confusing sales with GMV: gross merchandise value. I think that's a common mistake. What I think it comes down to is gross versus net reporting sales. For instance, Amazon reported sales on a gross basis, whereas Alibaba reported on a net basis. That's why Alibaba has a 30% margin, whereas Amazon has a 4% margin. It is not that Amazon is less profitable than Alibaba, it is just that Amazon reports on a much higher sales base. Alibaba do report that as well, and then splits it into GMV.*

What people got wrong is that the reason Alibaba does that is because a lot of fake sales happened on that flatform; if they report gross figures, it would inflate sales. When you see single day sales: 9 billion or 12 billion at Alibaba, quite often that number is made up. Because Alibaba just tells you the GMV figure. So that's why a lot of short sellers have gone after Alibaba, because they think that Alibaba is mis-reporting sales. But it is not. If you split down to cashflow, you realise that it is actually not a problem, because they can still add up the cashflows. So, it is all real. That is something I did encounter in January this year, when well-known short sellers, including companies like Muddy Waters, go to the conferences, they talked very negatively about Alibaba because of these issues (the fake accounting on GMV), which is not Alibaba's decision, it is done by merchants. And so, the stock was about 65 dollars. I had to basically answer questions about this. I actually added to the positions. Obviously its subsequently gone up significantly, from 65 to 110.

So, we made a big profit, because we added to it around lows.

Researcher: It was an excellent move.

Western 72: *Yeah.*

Researcher: You were quite confident about it, because you were able to drill down into the details, rather than take things at face value?

Western 72: *Yeah. What was great about that is because I already understood the accounting a few years earlier, even before it went public. It meant that when that happened - you must remember, when ICC launched an investigation into Alibaba's cross holdings and the way they report cross holdings - again, I understood that fairly well, as well. What that meant is that when these events happen, I did not have to spend two weeks analysing it. I was able to buy shares on that day, as I already understood it. It is pretty key to get comfortable with those companies.*

Researcher: So, when everyone was in a panic, you were confident because you know what is going on, so can take advantage of the situation.

Western 72: *Exactly. I actually bought Alibaba on the day ICC's investigation was announced, and I was buying on the day the short-seller employee spoke at the conference. It had been prepared in that way a few years earlier, and that allowed me to... and similar things happened with Baidu in the past year, in fact it was last year when they had an earnings report that looked very negative. The stock was down 17%.*

Researcher: Baidu had quite a difficult year last year.

Western 72: *Yeah, sort of. You have to remember that things like Tecent in the past year or 18 months have gone up 17-18%. There are some positives.*

Researcher: Because of competition?

Western 72: *Well, it is not so much about that. These are all great companies and they have found their niche. Interestingly, people think they compete against each other, and they do in some services, but those are a relatively small part of their business. Their core profits don't come from the parts that compete. 98% of Baidu's profits, or 115% of operating profits - because they have loss-making units - come from the core search business. Actually, Baidu's focus is on search, Alibaba and Tencent don't compete at all. Interestingly the O2O service, a stream video service*

Baidu own, they are actually a loss-making unit. So, bizarrely, people worried that competition may hit them. They lose money there. They lost money on purpose, because they are trying to build them. If you go back four years, you had video streaming, two services: Youke and Tudou. They formed YoukeTudou streaming. Baidu has the one called Aqiyi. They essentially said that we will make it the biggest video stream in China. For four years, they went from a mid-teens market share to now over 70% market share of streaming.

[…]

APPENDIX H: Study 2 Data Analysis – Ratings Analysis

1. Randomly drawn example of a ratings analysis, which resulted in a "2" score for a manager in terms of his attitude to macroeconomic information analysis.

Table 1. Hypothesis 1c - Ratings for Macroeconomic Information Analysis

Scale	Definition
4	A manager rated "4" paid a lot of attention to macro analysis and to finding the growing sector, but he/she also mentioned one or two factor related to firm-specific information. (equal or above 80% -100% macro factors)
3	A manager rated "3" would give equal weight to both firm specific information and macro/sector information. The investment examples show that the buying rationales have an equal number of factors from both aspects. (equal or above 50% and less than 80% macro factors)
2	A manager rated "2" has most of his/her analysis related firm-specific factors, but only one or two factors were related to macro/sector. (above 0 and less than 50% macro factors)
1	A manager rated "1" did not mention sectoral information at all. The analysis only involved financial health analysis of the firm. (0%)

In the participant's first investment example, he mentioned that he was mainly driven by industry-specific reasons, rather than first specific reasons:

Participant: *The kind of philosophy we have is that we invest in businesses that enjoy positive changes but are under-appreciated by the market. We typically put the company into three buckets: company change, structural change, industry change. We discuss the company in those terms, what is the change in the business? Why is it under-appreciated by the market? In the case of Geko, a lot of it is structural change, from long term (yearly contact lens to disposable ones), a lot of structural tailwinds to that firm. Those are also a number of companies' reasons. We won't invest in the company if it cannot take advantage of it. In case of Geko, 70% industry, 30% firm. But in other companies, most of time we invest is because of companies' changes. We prefer good companies in bad industry, rather than a bad company in a good industry. Ideal it is a good company in an industry that everybody else has written it off.*

In his second investment example, he was mainly driven by firm-specific information, rather than company-specific information. He was not very positive about the auto industry due to the new competition from electronic and driverless cars, etc. However, he got excited about Gelee's new style release and decided to hold for a little while.

Researcher: So, you like their new style?

Participant: *Yes. They took some Volvo design team onto their team. Volvo was a Swedish company, and is now Chinese. But basically, I saw the car. Gelee's car, historically, was pretty ugly. Even IR told us that some of the models are ugly. I*

suppose the difference in styling got us excited. The market is far more excited, we are excited. For us, what excites us is the difference in styling. For us, in the Chinese car market, SUV has been growing multiple-times. A lot of car companies do produce a significant amount of cars in the style of SUV, like Chang'an. But for Gelee, it is the company that has never succeeded in SUV. But you can actually see from the website, and people actually take pictures and claim that it is a new Gelee car. So, it looks quite similar to Landrover and Revok, quite similar to Chang'an. Because SUV in the past has been such a small part of their business, there was not much downside, but a significant amount of upside.

For other companies, 20-30% sales are from SUV. Well priced as well. All worked well. For Gelee, 2015 and early part of 2016 were good, after I purchased. The price has been quite volatile.

When you asked about a successful story, a lot of people might tell you about Tencent. It is not a great story, but it worked well.

In his third example, again, he was mainly driven by firm-specific information, rather than company-specific information. He was not very positive about the power plant industry due to over-capacity in China. However, he still picked up Holisis, because of its good management team, private ownership and overseas expansion.

Participant: *Holisis is end market, as China does not need more power plants or to build more railways. But it is a small company, managers are properly driven. We like managers. In this case, the guys are actually engineering. 60% on the board are engineers. They are not very good at communicating with investors. But we don't need that. You can see that the guys think before they speak, which is good. It does not matter to us that they don't come across well, because we don't need that. They know what they are talking about, which is helpful. You got something they are working on. It is a market that you have spent years to get licence in, such as railway signaling. You will need years to be licence approved before you can sell across regions. Most of their licences are European standard licences. In this market, typical of state-run enterprise, these guys have taken over market shares over the years and become competitive internationally. They've got enough cash to keep innovating. It is not a state-run company. The ex-CEO actually went to university in the UK. They spend a lot in R & D. they grow earnings. Grow overseas as well. They have just got orders from the Middle-East. For companies like that, maybe it will go nowhere for a couple of years, but at some point, it could easily be 15% upside.*

Researcher: Are they the biggest player in the industry?

Participant: *No. But for them, it is all about… we don't need to have the biggest players. We invest in the business that enjoys positive change. All we need from them is to take market shares, more competitive products. All of these they do. The new product they have produced such as Tracar, the end market for that is huge. It is currently dominated by state-run firms, and these guys, we know that historically they can do better than state-owned firms. They could grow significantly by cutting into these new markets.*

His fourth example was the Bank of China. Again, he was mainly driven by firm-specific information rather than company specific information. He was not very positive about the banking industry due to new technology growth and new competition. However, he liked the changes that the Bank of China has made since the financial crisis, and the less-risky balance sheet.

Participant: *It is an issue. We spoke with Bank of China. Bank of China is not as profitable as other banks. But like the other ones, if you look at the books of some other banks, they are so different from other banks internationally. Because a lot of assets are not loans, but investment securities. For instance, posting and savings bank, which is listed at the moment - only 30% of their assets are loans. You've got every analyst, all they want to talk about are loans, but actually loans are a small slice. Most of them are investment securities: which are loans being wrapped up into investment securities. But that is hugely risky. We can see from their yields. You know it is risky … It grows on a different path. It is an example of a company that changes for the better, less risky than they were perhaps. For banks in general, I am quite negative. All the financial technology could thwart them. Even in India, there is an App, where it tells you to put your money in, it will tell you which bank can give you the best rate. All the banks, they want to have great franchise, 5-10 years later, franchise will not be as important.*

In summary: I rated him "2": "a little sector/macro driven".

2. Randomly drawn example of a ratings analysis, which resulted in a "4" score for a manager in terms of his preference for a top-down approach.

Table 2. Hypothesis 1d - Ratings for Preference for the Top-Down Approach

Scale	Definition
4	A manager rated "4" would have investment process to follow top-down approach all the time: first macro-economy, and then find the stock. For example, if he gave four investment examples, all four stocks would have been selected following the similar top-down approach. (equal or above 80% -100% cases)
3	A manager rated "3" would have investment process to follow top-down approach most of time, first macro-economy, then find the stock. For example, if he gave four investment examples, two were selected via top-down approach, the other two bottom up. (equal or above 50 and less than 80% cases)
2	A manager rated "2" would follow top down approach occasionally. If he gave four investment examples, three stocks were selected via bottom up approach. (equal or above 0 and less than 50% cases)
1	A manager rated "1" would have all four investment buying examples to follow bottom up approach. (0%)

The participant made it clear that he preferred a top-down approach: first the sector and then the individual company.

He thinks that the key to investment is to get the macro trend right: *"Sector trends are very important"*. He thinks that although sector and stock selection are both important, in China's A share markets, sector selection would be more important, because there are not many good stocks to choose from.

In the first example, he first selected a popular sector which is internet banking. He thinks that this sector is going to fly, as the speed of internet is upgrading from 2G to 3G and the banking sector will benefit from it. After that, he found a firm in this sector, which is also their service provider. It has a good management team and has many good stories or events. It is a typical top-down approach.

In the second example, he first selected a sector, which is related to consumer spending. Within this sector, he liked a firm, which provided some parts for Apple. He thinks that this firm had the technical knowhow. However, it turned out to be failure, as this product or technology did not work well when it was at the stage of large-scale production. Again, it is a typical top-down approach.

In the third example, he first selected a medical sector, because as the Chinese people get older there will be more demands for that. Within that sector, he likes a company whose strategy and vision is excellent. Moreover, they did some surveys among hospitals and the company was rated highly. It is a top-down approach again.

In summary: Three out of three examples use a top-down approach (100%); thus, I rated him “4”: “Very top-down”.

3. Randomly drawn example of a ratings analysis, which resulted in a “3” score for a manager in terms of his choice of holding period.

Table 3. Hypothesis 1e - Ratings for Average Stock Holding Period

Scale	Definition
4	A manager rated "4" would have the average holding period above 1 year
3	A manager rated "3" would have the average holding period equal or less than 1 year
2	A manager rated "2" would have the average holding period equal or less than 6 months
1	A manager rated "2" would have the average holding period equal or less than 3 months

In his first example, the holding period is about 6 months; in his second example, the holding period is about 6-9 months; in his third example, the holding period is about one year; in his fourth example, the holding period is about 9 months.

He specifically said that *"the typical holding period is about 6-9 months".*

Researcher: How about your average turnover?

Participant: *150 per annul. Which means that the typical holding period is about 6-9 months.*

He has given reasons why his holding period is shorter than most Western fund managers - it is due to the third stage of his investment process. He also explained why his holding period is longer than most Chinese fund managers: because valuation is a key factor in the first stage of the investment process, unlike Chinese investors who are more focussed on prices.

Participant: *That's right. The third stage is about portfolio constructions, risk management.*

Researcher: So, operational issues, or trading issues.

Participant: *For instance, there is a share we like, then we see if we could invest through connect, or need to take out P-notes, just those sorts of operational things. And sometimes we look at the trading history of the company. In many cases, you find in A share markets, companies are suspended for a long period of time. We tend to avoid those, because we like to have liquidity. Because we capture the change dynamics. It can change very quickly.*

So, we have a slightly higher turnover than average investors.

Researcher: How about your average turnover?

Participant: *150 per annul. Which means that the typical holding period is about 6-9 months.*

Researcher: So it is shorter than Western investors.

Participant: *It is shorter than fundamentals, but not shorter than Chinese investors. My impression is that investors domestically are much more sentiment, or technical driven, so they trade a lot more.*

Researcher: Especially for quants?

Participant: *Yes.*

Researcher: Why does your strategy have a longer holding period?

Participant: *Our strategy is biased towards picking strong fundamentals with valuation being a big input. Value as a signal tends to not change much.*

[42.34mins]

Participant: *Prices change a lot, value does not change much. That factor tends to bring down the turnover the most.*

In summary: I rated him "3": "A little short term (equal or less than 1 year)".

4. Randomly drawn example of a ratings analysis, which resulted in a "1" score for a manager in terms of his method of evaluating management.

Table 4. Hypothesis 1g - Ratings for Preference for Contextual Information during Management Evaluation

Scale	Definition
4	A manager rated "4" thinks a good manager should be different for different firms, such as state-run or private, big firm or small firm, growing sector or mature sector, etc.
3	A manager rated "3" thinks that a good manager should be different for Chinese state-run firms and private firms.
2	A manager rated "2" looks for managers who are honest and can deliver. However, at the same time, he thinks senior managers at Chinese state run firms do not matter much or more trust-worthy.
1	A manager rated "1" is looking for a good manager who is honest, practical and can deliver.

The participant does not pay much attention to management evaluation. He kept complaining that managers in Asian countries do not engage much with investors. On a few occasions, when I asked about his impression of managers of firms he has invested in, he just could not recall. As a result, he does not have a strict rule for ideal management styles, or management does not matter that much.

For example, he said: *"I don't have an ideal management type. I obviously have appreciation for companies that are controlled by someone who knows the company very well or has unusual genius for the business. It is not the case for Long Yang, and for many of our businesses."*

In this first example, he was very vague about his impression of management: *"I was not 100% sure, because it did not happen recently."* He complained about lack of engagement from management: *"They are much more careful about how they want to talk to significant shareholders. They are very biased towards large shareholders. They are very rigid about information releases, and that they have to be based on analysis. No extra information."*

Moreover, he does not think that management is that important for Long Yang: "*The thing about Long Yang is that there aren't many strategic questions about Long Yang. Because their strategy is quite set - just increase capacity over the next 10 years. It is just the question of organising their finance. Winning the pipelines, building the wind farms. Quite simple. Does not need much management vision."*

In his second example, again, he does not think management is that important: *"We try to make sure that we understand the business model, understand the market. Management comes and goes."*

In his third example, again, he does not have a strong impression of management: *"It does not ring any bells with me, I have to say. To be honest, no, no, it does not."*

However, he does have one strict criterion which is related to his investment mandate and ethnics: *"Because we put a lot of weight on environmental and social government factors, we are interested in a management team that has the ability to think sensibly and holistically about what their organisations are doing, what their role in society is. That's where quality management lies, rather than with professional managers who are only interested in enriching themselves. I think that's very negative."*

His preference for ethical behaviours is clearly revealed in two of his examples.

In his third example, the reason that he sold the stocks (bull power) is because of speculative trading in their balance sheet: *"We realised that there is actually a governance issue there. It is not related to company performance, it is just related to operating trading. That was quite an interesting experience."*

In his fourth example, he sold them in the end, because the companies' managers violated his ethical principles: *"We sold in part because there is a lot of publicity about the method they use to dispose of their battery: which is environmental unsound. We thought that poses a question about management."*

In summary: He does not engage much with management in Chinese firms, therefore, he does not have a clear set of rules. There is only one clear rule which is determined by his ethical mandate and is universal across all his investments. I rated him "1": "Not at all context based".

5. Randomly drawn example of a ratings analysis, which resulted in a "4" score for a manager in terms of his investment process.

Table 5. Hypothesis 1h - Ratings for Preference for a Precise Investment Procedure

Scale	Definition
4	A manager rated "4" has **more than two stages** in the investment process, and each stage is defined very clearly, such as including which factors and methods for analysing those factors. In all the investment examples he gave, he **followed** those selection criterion. (equal or above 80% -100% cases)
3	A manager rated '3" has two stages in the investment process, and each stage is defined clearly. In all the investment examples he gave, he followed those selection criterion but with one exception. (equal or above 50% and less than 80% cases)
2	A manager rated "2" has one stage in the investment process, and the stage is defined a little clearly. In all the investment examples he gave, he followed those selection criterion in some cases, but did not follow in another cases. (above 0 and less than 50% cases)
1	A manager rated "1" has no account of how many stages in the investment process, and is very loose in the definition. In all the investment examples he gave, he sometimes followed those steps, sometimes not. (0%)

The participant kept mentioning the importance of building a process and having faith in it. He said that there are three stages in his investment process. It seems that he follows these processes in all his investment examples.

The first stage: the automatic screening by the computer and the combination of top-down and bottom-up approach. The top-down indicators included: inflation expectations, commodity prices and energy prices, etc. The bottom-up indicators included: how investors are positioned by looking at their biggest stock weights in terms of sectors and regions. This is used in a negative way.

Participant: *That does not mean that we don't invest in them* (if a company was heavily owned). *Just one factor: if the fundamentals are still strong, we may still invest. We use that to stop us from over-investing, and so that's a contrarian method we use.*

The second stage involves reading various reports.

Participant: *"We have an application that brings together research notes from analysts, we use Reuters Knowledge, and we use Bloomberg as well. You have thousands of analysts and reports. So, you can go through one by one, read this information. The idea really is to try to avoid companies that have some kind of corporate activities, taxation changes, management changes, basically anything that is likely to skew the financial characteristics of the company.*

That's why we use it (the app). *We don't use it to become experts on the company, we use it to make sure that we don't invest in things for the wrong reasons. That is mostly what our diligence is about: trying to avoid companies where the financial characteristics look good, but they may be wrong.*

Researcher: Might be affected by temporary noise?

Participant: *Yeah. Then we look at more market-based things. We look at liquidity, how we position in the portfolio.*

The third stage is about portfolio construction and risk management.

Participant: *For instance, if there is a share we like, then we see if we could invest through connect, or need to take out P-notes, just those sorts of operational things. And sometimes we look at the trading history of the company. In many cases, you find in the A share markets, companies that are suspended for a long period of time. We tend to avoid those because we like to have the liquidity.*

His other rule is about diversification - each stock does not carry too much weight.

Participant: *Our approach is we love diversification; we have low stock specific risk*.

Researcher: So, each stock does not carry too much weight?

Participant: *That's right. The biggest we have got is 3%. Typically, 0.2 or 0.3%. Generally average weight is 0.8 or 0.9%.*

In his first example (the Bank of China), he mentioned top-down indicators, analysts forecasts, other investors' positions, and analysts' reports. He also mentions diversification in terms of the Bank of China, because although the computer screening programme led to the list of a lot of banks, he cannot pick them all. The best is to pick the top three.

Participant: *We typically look at the top 10%, the top 70. When you have... when you look at the bank for instance, when you have a bias towards financials, 20 of those might be financials. It is easy to quickly make decisions and take out a large proportion of that. Because we look at diversification, we don't want to buy too many banks. We don't want to buy 20 utilities. So, it sounds like a lot. The diligence is perhaps on 5-6. We have a way of knowing which stock we like to focus on. … Bank of China, China's Communication Bank, China's Construction Bank, like you say, it is difficult to focus on Chinese banks, they basically move together and have very similar characteristics. A very small differentiation factor that pushes you to one over the other. There is not much point wasting your time on research. You are happy just go with the top 3 and build a portfolio from that basis.*

In his second example, (Sunny Optical), he mentioned top-down indicators and other investors' positions. It is an exception in that, although the stock was heavily owned, he still bought it. It shows his principle that: *"Investors' purchase is only a factor, not the only reason. For other stocks, where the stock specific nature of the company is much more important, we have got Sunny optical, which is a lens producer for cameras. They make lenses for cameras that go into mobile phones. They also make lenses that go into cars. So, the growth area for them has been increasing cars cameras to help people park, and to help people drive, things like that."*

Researcher: Is it state-run or a private company?

Participant: *It is a private company. You can say it is in the technology area, consumer technology, but it has strong links to the auto industry, and has a strong link to the mobile phone industry, both of which have been big growth areas. So, their company specific is more important than the trend in the actual sector.*

Researcher: What percentage for Sunny Optimal?

Participant: *It is probably 80/20% (80% company specific)*.

[46.39mins]

Researcher: Does the ownership of the company affect your decision?

Participant: *It does. This happens to be the company that has been over-owned. We tend to be very cautious about it but, on aggregate, the portfolio has positions that are less well-owned, so we don't mind having some companies that look exceptional.*

Researcher: What does it mean - over-owned?

Participant: *Over-owned by investors. Investors have overweighed the company.*

Researcher: Investors are positive about this company: more momentum than contrarian.

Participant: *That's right. The other thing we look at is how investors are positioned. We look at their biggest stock weights in terms of sectors, regions. We look at the positions of 5000 funds around the world. Data from Morningstar, brokerage data, to gauge investors positions. The idea is to use contrarian way to avoid crowding trades. We use this in a negative way: if they overweight one stock. And so, in China, there are some pockets that are overcrowded, specifically technology, consumer stocks. Similarly, things like solar companies are very overcrowded. That does not mean that we don't invest in them. Just one factor. If the fundamentals are still strong, we may*

still invest. We use that to stop us from over-investing. And so that's a contrarian way we use.

In his third and fourth example (Gelee and Guangzhou), it is a similar story. He mentioned top-down indicators, bottom-up indicators as well as reports.

In summary: I rated him "4": "Very precise".

6. Randomly drawn example of a ratings analysis, which resulted in a "2" score for a manager in terms of his attitude to policy and political analysis.

Table 6. Hypothesis 1i - Ratings for Attitude to Policy and Political Analysis

Scale	Definition
4	A manager rated "4" spends more than two hour each day reading news. He likes to use social network or discuss with his close friends for politics information. The information he has gathered is not just public information, but some rumours and implicit hints. He is looking for some **implicit hints** that politicians may favour this company, or this industry; politicians may discourage some stock rises; politicians may want to control the movement of the markets
3	A manager rated "3" spends less than two hour each day reading news. He sometimes like to use social network or discuss with his close friends for politics information. He sometimes looks for **some implicit hints** that politicians may favour this company, or this industry; politicians may discourage some stock rises; politicians may want to control the movement of the markets.
2	A manager rated "2" spends less than one hour each day reading news. He rarely uses social network or discuss with his close friends for politics information. He is only interested in the **public announcements** of tax policies, subsidies or interest rate, and their consequences from public news channel.
1	A manager rated "1" rarely pays attention to politics news.

The participant said that he spends 2-3 hours each day reading worldwide news; those 2-3 hours do not include time spent on specific stocks. Therefore, for China news, the time would be less than 1 hour.

In terms of news sources, he relies on major official news channels for information, such as Bloomberg, Guardian, BBC, Economist and Ecologist. He only uses social media a bit, such as Twitter: *"We don't use social media a lot, because we have a very low turnover ratio. So, we don't need to know quickly, just need to digest."*

In terms of methods of doing political analysis, he does not do much analysis on short-term policy changes. He said that although political analysis plays an important role in China, he admits that it is quite complicated to understand China: *"I find China fascinating, and I try to build my understanding around it the whole time but find it complicated."* Therefore, he would not make any purchase or selling decisions based on policies, as they are too volatile.

He would pay attention to the big thing, such as China's five year plan, because it is particularly relevant to environmental issues: *"Every five year plan has a stronger*

emphasis on environmental impact. It seems to survive the leadership transmission to Xi. Certainly, the corruption crackdown did not make an impact on that agenda. I think that's the general understanding of support for Chinese environmental issues. So, we are not really exposed to particular political issues." He would listen to public announcements by China's Department of the Environment, but again, he emphasised that: *"we would not be positing based on policies; they are too volatile. We hold stocks for a long time."*

In summary: The participant spends less than one hour each day reading Chinese news. He rarely uses social media for political information. He is only interested in public announcements. I therefore rated him "2": "political analysis is a little important to decision making".

7. Randomly drawn example of a ratings analysis, which resulted in a "1" score for a manager in terms of his views on the role of the state.

Table 7. Hypothesis 1j - Ratings for Perceptions of the Chinese Government

Scale	Definition
4	A manager rated "4" very much trusts the state will do whatever to save this sector or this particular company or the whole market. He very much likes investing in state-run firms and Chinese banks. He is not worried about bad loans because of government support, rather than any objective calculations.
3	A manager rated "3" somewhat trusts the state will do whatever to save the sector or the particular company. He somewhat likes investing in Chinese state-run firms and Chinese banks. He is not quite worried about bad loans because of government support.
2	A manager rated "2" a little trusts the state will do whatever to save the sector or the particular company, though he still does default risk analysis, He has no particular preference between Chinese state-run firms or private firms. He is a bit worried about bad loans in Chinese banks.
1	A manager rated "1" does a lot of risk analysis including default risks. He does not like investing in Chinese state-run firms or Chinese banks. If he does invest in Chinese state-run companies or banks, it would be based on objective calculation, not a blind trust of the government support.

The participant prefers investing in private firms:

Participant: *We did prefer private companies with family members having a large stake. Therefore, it's a good incentive for the business. Because they are incentivised to perform. We are together in the same boat. For state-run firms, they may have the same approach as you, they may not. It is like companies in Europe that are not owned by families, they can do whatever they like. They are not interested. Chinese state companies have two problems: first, the interests of the state, then the government, then the interests of the people running the business - maybe he does not consider the government, does not consider the shareholders. Two/three types of interests.*

Researcher: Therefore, they are not interested in doing business?

Participant: *Perhaps most of time, yes, interested in doing business. But you have the risk that they are not. For family businesses, you know this guy wants to make money and have the business for the long term.*

Researcher: Is this philosophy applicable to Spanish companies as well?

Participant: *Yes, it is the same across the world. Agency problem. He does not like banks, and state-own banks would be even worse.*

Researcher: Have you ever invested in Chinese banks?

Participant: *No banks. We don't invest in banks in general, in Europe and in China. Banks are very complicated businesses, too much leverage, very dangerous. The first thing we want is to sleep well. Banks can hide problems for three to four years, nothing happens. Steel manufacturing cannot do that. You cannot hide problems.*

Researcher: Chinese banks have government bailouts; does it make any difference to your decision?

Participant: *No difference. I don't like state-owned banks, even worse. (In general, not just Chinese state-owned banks). Because their interests are not aligned. They can give loans to people they should not be giving loans to. We have experience with a state-owned bank in Spain three or four years ago. I didn't like it. They are not usually managing well. They give loans to people that they should not give loans to.*

Researcher: Chinese banks are out of favour, no one likes them.

Participant: *It is kind of true. All banks in the world are out of favour. I have to think about it. The good thing about investing is that no one puts a gun to your head forcing you to invest. You can choose whatever you like.*

He does not trust government support either.

Researcher: Do you like government support?

Participant: *Support? In what sense?*

Researcher: For example, government support for high-tech industry, or environment related sectors?

Participant: *We don't like this, because the support can be now and present, two years later, the government changes leaders, and the support might go. We put support as low value. We have examples in Spain. When the government goes, the whole sector nearly collapsed. Because of the government support, the sector increases prices and costs. I prefer companies where a bunch of clients trust the company. These clients will stay.*

It is not just one politician in central government, saying yes or no. You have no clue. For example, for Tiajin port, it is subject to government intervention, but the margin of safety is high. Price is low. If the government of Taijin do something, you lose some, but there is a margin of safety. The price is really undervalued. Later it will recover.

Researcher: That's why invests in this company, not because of its state ownership?

Participant: *Despite government state-run…*

He does not think that Chinese government can influence the market in the long run.

Researcher: How much do you think the Chinese government can influence the markets?

Participant: They cannot. I mean, you cannot stop markets. In the long term, the influence is very low. You can close the market.

Researcher: So, in the short run, very much, but in the long run, not at all?

Participant: *It is something I learnt from…*

Researcher: In the short run, you mean a week, a month, a few days?

Participant: *I don't know what you mean by "intervention" (influence). They can put a tariff on steel, whatever, a subsidiary, you can influence the market in that way. They can change prices, "from now on, it is worth 10", but the cost is 12, then what will happen? No cup will be manufactured. It will involve losses. However, in the markets, when something is going to fall, nothing can stop it. It happens in Spain, all the time. Too many people are trying to do things. The Chinese government asked brokers to hold, not to sell. Even that, cannot stop it. In 1998, the Hong Kong government in the Asia crisis did the same. They bought 3 billion to stop it falling. Perhaps if the fall is already big enough, the price is close to its true value, it would stop anyway. You never do that. It is very complicated to do that.*

In summary: He does not treat the Chinese government as a "phantastic object" during the decision making process. Therefore, I rated him "1": "Not at all".

APPENDIX I: Examination of Hypotheses 2d and 2e – Thematic Data Analysis of Chinese Fund Managers' Behaviours in Studies 1 and 2

Tables Explaining Rationales Behind Chinese Fund Managers' Behaviours Through Thematic Data Analysis

Table 1. Hypothesis 1c - Reasons for Preferring Macroeconomic Information (Chinese)

Rationale	Examples
Lack of good corporates to choose in the market	Chinese 57 explained that because there are not many good firms to choose in Chinese markets, the key of investment is to get the sector trend right.
	In some high-tech industry, because the sector itself is very new and still innovative, there are not many firms competing. Chinese 58 talked about a sector producing a new kind of battery. He said that since the demand for an electronica car will grow, it will push demand for this kind of battery. Within this sector, there are not many firms. He emphasized at the end that "the key is about the sector".
	Chinese 54 also said in his final example about industrial intelligence sector that "It is a very new area, so there are not many firms, especially the lack of good firms."
	"I don't pay much attention to information related to individual firms, as state-run firms tend to be very similar." (Chinese 57)
Influence of Chinese government's policies on sector performance is overwhelming	Chinese 41 spoke about a successful investment decision, which was selected based on successful understanding of government policies on a particular sector. "In China, every single sentence said by government officials needs to be thought carefully, particularly its underlying meanings."
	"I normally choose a sector based on the government's policies and then within that sector randomly select a stock." (Chinese 57)
Insufficient time to do firm specific analysis	Chinese 2 also sometimes chose a stock randomly because of the time pressure. He said that when a sector is booming, he normally just randomly selected a few well-known names and did a quick analysis, and then made a purchase decision. "It is not possible to spend time and analyse all stocks in a sector, as you might lose the best investment opportunities if you wait too long."

Table 2. Hypothesis 1d - Reasons for Preferring a Top-Down Approach (Chinese)

Rationale	Examples
Political news or official speeches were powerful tools in identifying investment opportunities	Chinese 52 noticed the big news that President Xi was going to visit the US, and then he concluded that the sector related to information security will become popular. Chinese 56 preferred to finding hot topic via speeches by Chinese politicians. He first heard an interview of a retired environmental minister in China. During the interview, the former minister mentioned that the environmental spending in China is very inadequate compared to developed countries. Due to the neutrality of his position, it made my interviewee think that environmental industry will soon receive some kind of support or boost from the government. He then tried to find a good company within the sector.
Herding or examining market price patterns were powerful tools in identifying investment opportunities	Chinese 52 chose a stock which is heavily bought by brokers. He said "I was a bit excited, and then bought the stock which some mutual funds have bought heavily. I then try to guess what kind of theme it might be related to, but it does not matter whether my guess makes sense or not, because the most important that those brokers might have worked out the theme and have obtained a lot of information." Chinese 47 found a hot sector by simply looking at the changes of prices of that sector. He selected the banking sector once he noticed that banking sector did not rise as much as other sectors. Within the banking sector, he randomly picked up one bank, as he did not think there are many differences between Chinese banks.
The homogenous nature of the medical sector based on personal experiences	Chinese 55 strongly prefers China's medical sector, because he said that he has some special feelings for Chinese medical sector. "The distribution of China's national resources is very imbalanced, including medical resource, education and job opportunities, because China is a controlled economy. Wherever the government is located, the place would be built very nicely and gathers a lot of resources. China's second and third tier cities are lack of medical resources, and therefore, the whole Chinese countrymen are crowding to Beijing, Shanghai and Guangzhou for medical treatment. It is not right. I think the government would like to build more hospitals in towns and villages. It is also my logic and my hope. I hope more entrepreneurs could invest in medical care, as people get richer and older, there will be more demand for medical services"

Table 3. Hypothesis 1e – Reasons for Preferring a Short Stock Holding Period (Chinese)

Rationale	Examples
Uncertainties from policy directions causes excessive trading	"In Chinese markets, there are a lot of uncertainties from the macro environment. Therefore, often markets prices are going through big falls and rises. I will need to avoid big falls by selling quickly" (Chinese 62) "I don't have much faith on its long-term growth. It is a periodic phenomenon, perhaps due to good policy, or market style. Those things are temporary" (Chinese 20) "I do have much confidence on government policies to support a particular industry or a company for a very long time. So it is difficult to hold those stocks for long. Instead, I would rather follow a hot topic or hot theme which is likely to have the explosive power and rise sharply in the short-term." (Chinese 52)
Restrictions in trading rules in China causes reluctant buying activities	"In Chinese markets, it is hard to adopt shorting strategy.[14] Therefore, even if some Chinese fund managers have realised that the stocks are too expensive, the only trading option that is available to them is to make purchase, rather than shorting" (Chinese 25)
The composition of investors causes excessive herding activities	"There are so many retail investors in Chinese markets and they are easily influenced by the market trend. As a result, institutional fund managers tend to make purchases despite at a very high price, because they anticipate that retails investors will follow and they can still make profits by selling to retail investors at an even higher price quickly. Therefore, they don't need to do any fundamental analysis. This kind of herding behaviours can exacerbate the magnitude of prices falls and rises in Chinese markets" (Chinese 25
Performance pressure or competition causes excessive trading	"I cannot afford not to trade more often, because our profit target is very high. When the tide or the market trend turns, I have to sell quickly, otherwise it will eat into my profits." (Chinese 31) "In the Western markets, the benchmark for performance evaluation is normally the market index. However, in China, the most important benchmark is the peer ranking, which causes huge competition among managers. One has to beat others all the time". (Chinese 19) "Peer ranking causes a lot of trading and a lot of pressure on fund managers, who are all clever people. The evaluation system forces them to trade frequently, and eventually returns are not good for anyone". (Chinese 25)

[14] Short selling is a common concept in Finance. It works in three steps. Firstly, one borrows a stock. Secondly, one sells this stock. Thirdly, one can buy the stock back from the market at a lower price and return the stock to the lender. The differences between the selling price at the second step and the buying price at the third step is the profits for investors. Short sellers make money by betting that the stock they sell will drop in price. If the stock drops, the short seller buys it back at a lower price and returns it to the lender.

Short-term nature of client bases reduced average holding period	"For example, the AUM for one fund is only RMB 100 million in the beginning of 2015, while it reached RMB 3bn at the end of 2015. Because turnover ratio is calculated based on the lower AUM, therefore, the rise of AUM would overestimate turnover ratio and as a result lead to a shorter holding period. Moreover, when the AUM is going down, I had to sell stocks at any costs in order to satisfy clients withdraw." (Chinese 54)
The volatile market caused excessive trading	Chinese 56 would change his holding is that the price of the stock he invested reached his price target. Chinese 54 also blamed the volatility of the market. He said ""For example, we bought a stock in the beginning of 2015. After a month, its price rose by 5 times. It was well beyond our target level too quickly. So we had to sell." Chinese 47 admitted that he would trade more often in the bull (rising) market. Chinese 52 said "It would be very difficult for managers to hold stocks for very long, because the length of bull (rising) markets is short while the length of bear (falling) markets is long"
Because of lack of good protections for small shareholders, Chinese managers did not have confidence on the long-term growth potential of China's public-listed firms	Chinese 47's investment in stocks of China's state-run banks is generally very short, normally less than a week, fewer than his average holding period of two weeks. Chinese 57 did not hold stocks of China's state-run companies for long either, 4-5 days in maximum. "Corporate governance in China is not good. Big shareholders steal money from small shareholders. They invest in big project, remove money from small shareholders. Chinese markets do not protect small shareholders well, and a lot of public listed companies do things they ought not to do." (Chinese 25)

Table 4. Hypothesis 1g - Reasons for Preferring Contextual Information in Evaluating Management (Chinese)

Rationale	Examples
Management from Chinese state-run and private firms is different	Chinese 59 said that for state-run firms, he would look for aggressive managers, because there were many uncertainties around the tenure and appointments of those senior managers in state-run firms. Very often a CEO of a state-run firms did not stay in a post for long. As a result, he liked to hold those stocks for a very short period, and he believed that an aggressive type of managers was good for stock prices in a short run. In contrast, CEOs in private firms were normally founders and could be in the post for at least next 5-10 years. Therefore, he would like to hold those stocks for a relatively long term, and look for more conservative managers. Chinese 47 thought that managers at state-run firms were less important than managers at private or family-run firms, because those private firms' managers could have more direct impact on firms' business development and stock prices. Therefore, he normally spent more time when it came to the evaluation of private firms' managers. Chinese 41 believed that the standard for evaluating managers in a state-run firm should be lower than it for private firms' managers, because if there was a black swan event, for example, an official was arrested and jailed due to corruption, the effect on stock prices were normally not that dramatic for state-run firms; sometimes it could be positive news for the market. In contrast, in a private company, if the manager was arrested, the effect on stock price could be really damaging.
Management from different state-run firms could be different	Chinese 28 said that in general managers in state-run companies were not very important to share price performance. However, for some managers in state-run companies, if they had led the companies to success, in this case, they could be very important despite they were at state-run firms.
Management from different sectors could be different	Chinese 59 and Chinese 61 held the same view that for a booming sector, managers were not very important. Chinese 18 also shared the same view, and he explained "demand and supply factors are more important than corporate governance or managers' capabilities in a growing sector Chinese 47 said "for the tourist industry, senior managers are not important for the stock performance. Consumers demands and seasonal factors are more important". Chinese 62 emphasised that "for a commodity sector, management is not too important, because the stock performance is more related to commodity prices and commodity reserves". Chinese 19 said "In a highly-competitive sector, management are more important than the sector where there is less competition."
Management from firms with	Chinese 59 held the view that for a firm with a time-honoured brand, management was not important.

competitive advantages is different from others	Chinese 46 went even more extreme by saying that “The company has already grown mature and well-known enough, so it has already become a money-making machine. In that situation, senior managers are not important. In other words, if you put a dog to chair the company, it would still prosper.” Chinese 9 thought that if a company enjoyed the monopoly status in China, it was not necessary to assess management team at all: “Because whoever leads, the company will always win”. Chinese 35 also held the similar view “For some high tech companies, senior managers play a very important role; however, for some mature firms with absolute advantages, senior managers are less important.”

Table 5. Hypothesis 1h - Reasons for Preferring a Less Precise Investment Procedure (Chinese)

Rationale	Examples
The differences in performance evaluation between Chinese and Western markets made rules in the west useless in China, including differences in return benchmarks and peer ranking pressure	Chinese 48 said “Chinese markets are very different from Western markets; many technical or fundamental analysis used in the Western markets are not applicable in the Chinese markets. For example, in the west, 30% profits are already good enough. In China, it is not good enough.” The researcher asked "How can you achieve higher returns?” “Be brave”, he answered. "In the past two months, our returns were about 100%." (return benchmarks) Chinese 57 said that if his performance was ranked in the top 30 percentile among his peers, he would feel more relaxed about the performance target and as a result, he would reduce risks and increase diversification in his portfolio by investing in more sectors. However, if his ranking was not good at the moment, he would take more risks by gambling in one or two sectors. (peer pressure)
The fast speed of changes in Chinese markets made rules in the west useless in China	Chinese 20 in his second interview (Study 1) said that in Chinese markets, Warren Buffett could lose job after a year: “I admire those investment gurus that can summarise their investment experience and write them down. However, in my opinion, some methods may only be valid for a certain period. There is no universal rule that can be useful all the time.”
Accounting frauds in Chinese companies make quantitative model useless.	Chinese 41 did not use any qualitative model or any excel spreadsheets; he only used logical reasoning. He said that if there was an accounting fraud by a company, any model would be useless. “In China, if it is a widely recognised company, such as a company set up by a well-known figure, it is unlikely to have fraud. Another factor I would look at is dividend payment, which can hardly be faked.”
Investment is an art not a science	Chinese 2 made a very interesting analogy: investment decision making is more like an art rather than science. He cited examples of playing musical instruments. The master musicians can tell the nuisance by their ears, rather than scientific measurements. Chinese 14 also made similar analogy: “Investment is not something can be described properly. It is like some arcane martial arts. They can only be taught by experience and meditation, rather than by words. Sometimes it is difficult to tell why I have confidence in this stock, and why I think it will make money. It is not about more information or not.” Chinese 25 compared fund managers to dentists: “I have tried to reflect and build a system. The rules are difficult to build up. It is not science, more like art. Western fund managers have strict rules, but investment decision making is different from dentist’s check-up menu. Dentist have a checklist for the process, but investment decision making cannot. It is very fluid and changing all the time”.

APPENDIX J: Examination of Hypotheses 2d and 2e - Thematic Data Analysis of Western Fund Managers' Behaviours in Studies 1 and 2

Tables Explaining Rationales Behind Western Fund Manager's Behaviours Through Thematic Data Analysis

Table 1. Hypothesis 1c - Reasons for Preferring Firm Specific Information (Western)

Rationale	Examples
A good Business model was the reason for decisions	Western 7 said that "the stock had very good returns, good dividend payments, low PE and good business model." Western 49's fourth example was about shorting a company's stock, i.e. he expected that stock prices would go down. His rationale was mainly based on the company's business model. He said that "it is a private firm. Because it only has one key customers, and it raised the alarm to me". Western 64 liked the asset light model of a Chinese company, because it means that this company did not need to invest in property or take on the asset risks. Its business model was to franchise, which was less capital intensive.
New product launched or expanding overseas were the reasons for decisions	Western 64 liked the new product launched by a company. Western 67 said that "It is not state-run company. The ex-CEO actually went to the university in the UK. They spend a lot in R & D. They grow earnings. Grow overseas as well. They have just got orders from middle-east." Western 69 also praised the company that "they have done a very good job expanding outside China".
Company governance is the reasons for decisions	Western 64 rejected a stock because of financial account authenticity issue. "We identified some credibility issues around this company, where a lot of data was not credible."
Social responsibility is the reasons for decisions	"We sold in part because there are a lot of publicity about the method they use to dispose their battery: which is environmental unsound. We thought that poses question about management." (Western 63)
Thorough analysis on company specific information help build high conviction and	Western 66 said that "I do believe that it is important to run a concentrated and high conviction portfolio. If you only invest 1% in the company and have 100 companies in the portfolio, you would never understand those company. It is better to understand a handful of companies very well, and have confidence in your investment."

confidence in investment	

Table 2. Hypothesis 1d - Reasons for Preferring a Bottom-Up Approach by Western Fund Managers.

Rationale	Examples
Quantitative model or the quality of business are important for rational decision making	Western 49 has a very comprehensive model or screening process. Western 24 also emphasized on models "We have our model, which is the most important." The screening model normally involve some quantitative ratios, for example, Western 51 would only look at companies which satisfy the so-called "yield" threshold first.

Table 3. Hypothesis 1e - Reasons for Preferring a Long Holding Period (Western)

Rationale	Examples
Long-term growth potential of the public listed companies is great	Western 72 had one of the longest holding periods. At the time of the interview, he had already held those three Chinese stocks for three years and emphasised that he would like to hold them for at least another 10 years, because he believed that a long holding period can deliver better returns because of the exponential growth. "As a value investor, buying stock is like to buy the whole business". (Western 39) Western 7's believed that longer holding periods would deliver higher returns, "a lot of academic research also showed that long holding period generated better long term returns." "When we chose something, we prepare to wait for the market to take time to recognise it. Meanwhile, when the company is growing well and things are going well, we like to wait." (Western 65)
It is the company's policy to hold long	Western 38's average holding period was two to three years, and he said that this was his company's investment policy that required managers to hold that long in normal situations, unless some sudden changes happened.

There should be no association between performance pressure and short holding period	Western 70 said that his fund performance was assessed formally twice a year and he looked at the profit/loss accounts every day. “We look at performance every day, but it does not mean that we trade every day.” Western 71 also had constant evaluation of his performance, and did not think that it should affect the holding period in any way.

Dividend payment is the reason for long-term holding	Western 51 had held Chinese banks for 4 years at the time of interview: “I would hold those banks forever, as long as they pay me dividends”.
Strict stop loss policies and rules	Western 10 said that we have policies about stop loss positions. We don’t allow position losing more than 20%. Another rule: At no time did we allow portfolios that have many stocks down by 15% -20%. We will review and only hold it when we have enough confidence. Not too many losers, called loss minimisation. “It is my experience that losses need to be addressed early. It is human nature that we don’t admit we’re wrong.”

Table 4. Hypothesis 1g - Reasons for Preferring Consistent Criterion in Evaluating Management (Western)

Rationale	Examples
Personal integrity is important, despite management from state-run and private firms is different	Western 38 emphasized "honesty" as an important quality: "Managers from a state-run firms have to stick to the party line and cannot speak freely. So I like to invest in private firms, as it would be easier to judge their honesty". Western 50 also looked for managers who were honest: "For state-run companies, you can figure out who they are; however, for private companies, you just have no clues who they are and what their background is. There are terrible scandals happened in private companies."
Checklist and signs of shareholder protection is useful tools for management evaluation	Western 34 also preferred managers who paid attention to shareholders' interest. "My analysts do company visits. They have a checklist to tick. The key thing you are looking for is to managers pay attention to shareholders' interest. For example, managers say that they care about shareholders' interest, but do not have time to see you. I would see it as an opposite to what he says. Another example is that managers work in a very luxurious office, which is another bad sign. Analysts have a checklist to tick from each visit about managers and business. The checklist is the same for all industries."
It is difficult to judge personality by visiting along	Western 23 said "You have to be very careful to judge people based on one or two visits. Sometimes they did not have a good night sleep and may not come across well when you meet them". Western 22 did not believe that company visits would be helpful when it came to the evaluation of managers' personality "Each visit only last for a couple of hours in maximum. It is doubtful how much you can understand a person or assess a person just by one single visit. It is also a behavioural finance topic. One should control emotions, should not be biased by first impression or information." Western 49 did not do any company visits, because he did not trust company directors to tell truth, "They are not incentivised to tell us truth. Try to ignore what they say, ignore those materials they officially produced. We rather look at their competitors before looking at them." Western 33 did not do company visit either: "Managers are normally sale people. The most important to see what they do, not what they say". Western 63 did not pay much attention to management evaluation. He kept complaining that managers in Asian countries did not engage much with investors. On a few occasions, when the researcher asked about him his impression of managers of firms he had invested, he just could not recall. Western 65 expressed the similar frustration over his capability to evaluate managers from a different culture. He also made clear that he had the same evaluation criterions for managers regardless the firms' geographic regions or ownership. Here it is the interview excerpts between the researcher and Western 65: Researcher: So, you evaluate manager across regions using the same criterions?

Western 65: *That's right.*

Researcher: Do you differentiate whether they are Chinese or American, state-run or private firms' managers?

Western 65: *Not really. I have to say it is easy to read Spanish people. I can trust my noses for Spanish people than for Chinese or Germany.*

Researcher: It is because of language?

Western 65: *It is language. You know we have been looking at the same TV programmes, played the same games. It is not about believing or not believing, I have to make judgment of these people from my own culture than doing it for foreign people. For Chinese people, it is impossible for me. It is not just about language; it is lots of.*

Table 5. Hypothesis 1h - Reasons for Preferring a More Precise Investment Procedure (Western)

Rationale	Examples
Well-defined process helps managers stand out from crowds and provide them with competitive edge.	Western 72 got a very interesting and comprehensive process. First, he would think about 10 years ahead. Secondly, he would consider idiosyncratic risks. Thirdly, he would look for the best price. **He believed that his process was very different from many other investors**. He followed this process in all the investment examples he mentioned. Here it is his explanations of the process: "I work probably opposite around to anyone else. Everyone look at, the screen for stocks, I want low PE multiple. It is right at the end for me. I start by analysing the business, then I think about stocks. I would say whether this company would be around in 10 years' time, if so, will it be bigger or more profitable than it is today. If the answer is yes, then I would think about how well the company is going to generate shareholder returns on the current asset base, forget about future asset base. How well they generate free cashflow, how well they generate high returns on capital on the current asset base. Then I think about total addressable market. How much it can capture, i.e., If I know you get 25% returns on capital, you get big total addressable market, if you can capture part of it, I know the growth will be hugely profitable, because I understand how you allocate capital. Those boxes need to get ticked. Then I start thinking about subtlety, i.e., what idiosyncratic risk with this company. Are they in a very competitive business? Are they very regulated? Then try to get comfortable with the business in that sense. Only the last minute, do I think about actually how much I pay for this. Remember, If I like the business, it is overvalued, I can still like the business, I don't have to buy it now. I can wait and buy it in the future." Western 51 also had a set of very well-defined rules which he followed in the majority of the investment examples he mentioned. The consistency ratio is 80%. He divided his investment process into three stages. **First, he had a yield threshold, which he kept emphasising during the interview.** Secondly, he would balance sheet and dividend payments. Thirdly, he looked for companies that had local political connections or could pass the "joint venture test", which he explained: "If they have already got joint venture with overseas multi-national companies, it means that that international company is already comfortable with its managers. So, someone else has done the due diligence for me". The aim of joint venture test is to free-ride others' evaluation and reduce his decision risks. He gave an example about having good local political connections. He invested in a textile company; because of the good connections with local politicians, this company was able to secure a good store location.

Consistent and well-defined process help build faith and confidence in investment	Western 68 kept mentioning the importance of building a process and having faith in it. He said that there were three stages in his investment process, and he followed in those stages in all his investment examples. Western 69 also made clear that “our investment process is pretty expensive, pretty robust”, and he has followed this process in all investment examples he mentioned.

APPENDIX K: Participant Information Sheet and Consent Form for the Survey Study

Information Sheet

Title of Project: Cultural Influences on Investment Decision Making.

This study has been approved by the Ethics Chair of the Division of Psychology & Language Sciences.

Project ID Number: CEHP2015_534.

Dear Participant,

I am conducting a Ph.D. research project that aims to advance understandings of the differences on investment decisions-making by Asian and western fund managers. To this end, I am undertaking a survey with both western and Asian equity fund managers.

You are being cordially invited to participate in this research project. Before you decide whether to take part, please read the following information carefully and discuss it with others if you wish. Please do not hesitate to ask me if you would need any further clarification or information.

Introduction

There are many differences between Asian and Western cultures. In an era of international financial systems and markets, it has become a valid question to enquire whether and the extent to which culture plays a role in the investment decision-making process of fund managers.

The research project's objectives are to

- Provide the first comparative account of the process by which Asian and Western fund managers reach their decisions in relation to investment of stocks;
- Identify any cultural influences in investment decision-making and weigh these against other socio-economic reasons;
- Use the research findings to inform fund managers' understandings of their decision-makings and to assist international financial institution in their recruitment of fund managers

Research Ethics

It is up to you to decide whether or not to take part. Choosing not to take part will not disadvantage you in any significant way. Even after agreeing to take part, you can still withdraw at any time and without giving a reason.

All data will be handled according to the Data Protection Act 1998 and will be kept anonymous.

Benefits of Participating

In return for taking part in the research project, I will send you email bulletins of the key findings from the research project and offer you the chance to shape the future direction of the ongoing research.

Kind regards,

Haili Wu

PhD Research Student

Consent Form

Title of Project: Cross-Cultural Differences in Investment Decision Making.

This study has been approved by the Ethics Chair of the Division of Psychology & Language Sciences.

Project ID Number: CEHP2015_534.

Participant's Statement:

I agree that I have:

- read the information sheet and/or the project has been explained to me orally;
- had the opportunity to ask questions and discuss the study; and
- received satisfactory answers to all my questions or have been advised of an individual to contact for answers to pertinent questions about the research and my rights as a participant and whom to contact in the event of a research-related injury.

I understand that I am free to withdraw from the study without penalty if I so wish, and I consent to the processing of my personal information for the purposes of this study only and that it will not be used for any other purpose. I understand that such information will be treated as strictly confidential and handled in accordance with the provisions of the Data Protection Act 1998.

Signed: Date:

Investigator's Statement:

I confirm that I have carefully explained the purpose of the study to the participant and outlined any reasonably foreseeable risks or benefits (where applicable).

Signed: Date:

APPENDIX L: Survey Questionnaire – Study 3

A Survey of Equity Fund Managers

All information in this survey is entirely confidential. Please avoid writing either your name or that of your investment company anywhere on this questionnaire.

P1: Data on professional information	
a. How long have you held portfolio management responsibility?	___ years ___ months
b. What asset group do you invest? (Please select as MANY as possible)	1. Equity 2. Fixed Income 3. Commodity 4. Foreign exchange 5. Others _____
c. How large is the total volume of equity under your management, and for which you are personally responsible? (Please make the best estimate you can)	_____ million USD
d. In which type of fund do you primarily manage stock market investments? (Please select ONE only)	1. Mutual fund 2. Pension fund 3. Hedge fund 4. Insurance fund 5. Propriety trading for a credit institution 6. Others (please specify) _____
e. How large is the investment company, where you work as a fund manager, in terms of those assets which it manages as stock-based and mixed securities-based investment funds? (Please make the best estimate you can)	_____ million USD
f. In which country is your firm's headquarter located?	_____
g. How many analysts and portfolio managers does the entire investment group for which you work as a fund manager employ in its equity management divisions, both in its foreign branches and in the parent company? (Please make the best estimate you can)	_____
h. What is the most important part of your investment strategy? (Please select as MANY as possible)	1. Fundamental analysis 2. Quantitative screening 3. Technical analysis

i. How often is your own personal contribution to fund performance <u>measured</u>? (e.g. 1.5 years = 18 months, 2 weeks = 0.5 month)	Every_____ months
j. How often is your own personal contribution to fund performance <u>appraised, i.e. linked to your remuneration?</u> (e.g. 1.5 years = 18 months, 2 weeks = 0.5 month)	Every_____ months
k. Your personal contribution to fund performance is judged by which criteria? (Please select as MANY options as applicable)	1. Absolute fund performance 2. The performance of other comparable funds 3. The difference between fund performance and a relevant market or sector index 4. Risk-adjusted measures of relative performance, such as Sharpe ratio 5. Other criteria _____
P2: Data of investment behavior	
l. In the past 12 months, what percentage of your purchasing decisions can be best described as top down investing?	_____%
m. In the past 12 months, what percentage of your purchasing decisions can be best described as bottom up investing?	_____%
n. In the past 12 months, what percentage of decisions are a mixture of both top down and bottom up?	_____%
o. In the past 12 months, how many equity purchasing decisions have you made in total proximately?	_____
(Note: Q (l) (m) (n) must add up to 100%)	
p. Please rate how important the following factors are for you in identifying investment opportunities:	0 = plays no role 5 = plays a predominant role
1) Geopolitical opportunities	0 1 2 3 4 5
2) Macroeconomic factors, such as monetary policy, fiscal spending and industrial policy	0 1 2 3 4 5
3) The company is in a growing sector	0 1 2 3 4 5
4) The company can benefit from technological changes	0 1 2 3 4 5
5) The company can restructure to create value for shareholders	0 1 2 3 4 5

6) The company is cheap relative to the current value of its assets or cash flow	0 1 2 3 4 5
7) The company is expected to pay high or growing dividends	0 1 2 3 4 5
8) Other _____	0 1 2 3 4 5
q. What is your average holding period approximately? (Please make the best estimate you can)	_____months
r. If a chosen stock underperformed significantly, how soon would you typically change your investment decision?	1. I'd wait up to ___ months 2. I'd make an automatic adjustment based on predefined rules (such as a stop loss)
s. Which statement best describes your investment process? (Please select ONE only)	1. I have more than two stages in the investment process, and each stage is defined very strictly, such as specifying which factors are important and the methods for analysing those factors 2. I have two stages in the investment process, and each stage is defined strictly 3. I have two stages in the investment process, and each stage is defined a little loosely 4. I have one stage in the investment process, and this stage is defined a little strictly 5. I don't have any predefined rules or procedure for investment
t. In the past 12 months, what percentage (out of 100%) of your investment outcome followed the above defined investment process? (Please make the best estimate as possible)	_____ %
u. How much do you agree with the following statements?	0 = don't agree 5 = strongly agree
1) I make my investment as precise as possible.	0 1 2 3 4 5
2) I rely on complex mathematical models during my investment.	0 1 2 3 4 5
3) I have a very consistent risk management system (for example, consistent risk rules include automatic stop losses policy, which does not change because of market condition or my current fund performance)	0 1 2 3 4 5

4) I use many quantitative indicators during my investment (for example, quantitative criteria based on the company's balance sheet)	0 1 2 3 4 5
5) Investment theories I have learnt from financial text books (such as CFA test books) are very useful to my investment practice.	0 1 2 3 4 5
v. How much do you agree with the following statements?	0 = don't agree 5 = strongly agree
1) The type of good managers I look for in a large firm is different from in a small firm.	0 1 2 3 4 5
2) The type of good managers I look for in a state-run firm is different from in a private firm.	0 1 2 3 4 5
3) The type of good managers I look for in a growing sector is different from in a mature sector.	0 1 2 3 4 5
4) The type of good managers should not be influenced by a firm's ownership, size and industry. The type of good managers should be honest and upright.	0 1 2 3 4 5
5) I have a checklist for management evaluation and it is applicable to all types of firms	0 1 2 3 4 5
w. Will your answers to the above 26 questions in Part 2 concerning investment behaviour be the same if you were investing in a Chinese company compared with investing in a UK/US company? In other words, will your above mentioned investment behaviours be the same regardless of the nationality of the companies you are investing?	• Yes • No (please explain why) _____
P3. How much do you agree with the following statements? (0 = don't agree ⇔ 5=strongly agree)	
x. Everything in the universe is somehow related to each other.	0 1 2 3 4 5
y. Even a small change in any element in the universe can lead to substantial alterations in others.	0 1 2 3 4 5

z. Any phenomenon has a numerous number of causes although some of the causes are not known.	0	1	2	3	4	5
aa. Any phenomenon has a numerous number of results although some of the results are not known.	0	1	2	3	4	5
bb. Nothing is unrelated.	0	1	2	3	4	5
cc. It's not possible to understand the pieces without considering the whole picture.	0	1	2	3	4	5
dd. The whole is greater than the sum of its parts.	0	1	2	3	4	5
ee. Paying attention to the field is more important than paying attention to its elements.	0	1	2	3	4	5
ff. A marker of good architecture is how harmoniously it blends with other buildings around it.	0	1	2	3	4	5
gg. Sometimes, the empty space in a painting is just as important as the objects.	0	1	2	3	4	5
hh. My happiness depends very much on the happiness of those around me	0	1	2	3	4	5
ii. I would do what would please my family, even if I detested that activity	0	1	2	3	4	5
jj. I usually sacrifice my self-interest for the benefit of my group	0	1	2	3	4	5
kk. I enjoy working in situations involving competition with others	0	1	2	3	4	5
ll. The well-being of my co-workers is important to me	0	1	2	3	4	5
mm. I enjoy being unique and different from others in many ways	0	1	2	3	4	5
nn. Children should feel honored if their parents receive a distinguished award	0	1	2	3	4	5
oo. I often "do my own thing"	0	1	2	3	4	5
pp. Competition is the law of nature	0	1	2	3	4	5
qq. If a co-worker gets a prize, I would feel proud	0	1	2	3	4	5
rr. I am a unique individual	0	1	2	3	4	5
ss. I would sacrifice an activity that I enjoy very much if my family did not approve of it	0	1	2	3	4	5

tt. Without competition it is not possible to have a good society	0 1 2 3 4 5
uu. I feel good when I cooperate with others	0 1 2 3 4 5
P4: Personal data	
vv. What is your ethnic origin?	1. White English / Welsh / Scottish / Northern Irish / British 2. White Irish 3. Mainland Chinese 4. Any other background, please describe_____
ww. Do you have any cross cultural experiences? (e.g. If you are from the West, have you travelled or studied or worked in the East and for how long?)	• No • Yes (please specify) _____
xx. What is your nationality?	1. United Kingdom 2. United States 3. China 4. Other _____
yy. How old are you?	___ years
zz. What is your gender?	☐ Female ☐ Male
aaa. Which highest educational level have you attained? In which subject?	Highest level of education: _____ Subject: _____
bbb. Do you have any professional qualifications?	• No • Yes (please specify) _____
ccc. What is your portfolio annualized return in the last six years? (If these figures do not come to your mind, please take a moment to find out as much information as possible, because this information is also very important for the study)	2017:_____ 2016: _____ 2015: _____ 2014: _____ 2013: _____ 2012: _____
ddd. In which currency are your portfolio returns measured?	_____
eee. What is your benchmark?	_____

Further comments

If you wish to provide any further information (participation entirely optional), I would, of course, be greatly interested in learning more about your views on the topics mentioned in the questionnaire. Please make your comments (e.g. using key words) in the space provided below.

Return of the questionnaire

Please avoid writing **either** your name **or** that of your investment company anywhere on the questionnaire.

Please email the completed form back to the author.

To show my appreciation, I will send you key findings of the research study in which you have just participated for your own personal use. Thank you very much for your assistance.

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