Prejudices and discrimination threat for efficient financial market

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Prejudices about ethnicity and culture influence how and why financial markets respond to the initial public offering for companies and the valuation of the shares. In her thesis, Ivana Naumovska from the Erasmus Research Institute of Management reveals how investors allow themselves to be led by their prejudices during the initial public offering of Chinese companies, for example. Naumovska's research was funded by a Mosaic grant from NWO.

For the period 2011 to 2013, Naumovska investigated how investors allowed themselves to be led by their prejudices during the assessment of a reverse merger by Chinese companies. In the case of a reverse merger a company listed on the stock exchange that has few commercial activities is taken over by an unlisted company. That company brings its activities, assets and debts into the listed company and in return receives shares from this company as compensation. In her thesis entitled 'Socially Situated Financial Markets, A Neo-Behavioral Perspective on Firms, Investors and Practices' Naumovska demonstrates that ethnic and racial prejudices and discrimination play a role in the decisions of investors and their actions on the exchange markets, which should not be underestimated. The media also played a role in the prejudices about Chinese companies. In the reporting, relatively more attention was paid to the mismanagement of Chinese companies that were involved in a 'reverse merger' than to companies in the United States. The prejudices demonstrated by Naumovska can put the efficiency of markets at risk because the American investors do not asses Chinese companies for their operational results but allow themselves to be led by prejudices about ethnicity and culture.

The sociology of financial markets

Naumovska started her research with the assumptions that financial markets can be viewed as a sociological phenomenon and that sociological factors exert an influence on the actions of investors. For her research Naumovska did not make use of the traditional economic theories but of a 'neo-behavioural' perspective in which the dynamics of financial markets are determined by social factors and behaviour. For this she combined theories from sociology and organisational behaviour with insights from psychology and linguistics to explain the social dynamics of exchange markets. Based on this she formulated her questions, and she was able to expose the social psychological and institutional factors that influence the dynamics of financial markets and the actions of investors.

Empirical contribution

With this approach, Naumovska offers a new perspective for research into exchange markets. Her research was made up of four subsidiary studies. For the first two studies she investigated reverse mergers, a non-traditional way for companies to become listed on the stock exchange. In the third study she investigated a particularly Dutch phenomenon, namely a coded assessment scale that managers use to assess the results of companies and to share this with each other. Her linguistic analysis on the use of this revealed that through their use of language, managers influence how investors value the results of companies. With these three studies she has provided an important addition to the existing empirical knowledge. A fourth study is a repeat and a critical analysis of an existing study that was published in an influential financial newspaper. With this study she has underlined the importance of repeat studies for research into finances and management. Naumovska hopes that companies will learn from her sociological analysis of financial markets so that investors, managers and shareholders become aware of the discriminating opinions that are used in the world of stocks and shares.

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