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Ph.D. Dissertation Defense

Candidate:	Hongju Ren
Degree:	Doctor of Philosophy
School/Department.:	School of Business / Business Administration
Date:	Wednesday, Apr 23, 2025
Time:	11:30 am – 1:30 pm
Location:	Babbio Center 641
Title:	Three essays on Influence of Social Culture/Networks on Investors' Behavior
Chairperson:	Dr. Anand Goel, Finance, School of Business
Committee Members:	Dr. Suman Banerjee, Finance, School of Business Dr. Ye (Emma) Wang, Finance, School of Business Dr. Josep A. Tribó, Management & Marketing, School of Business Dr. Feng Mai, Business Analytics, Tippie College of Business, The University of Iowa

Abstract

The three essays in my dissertation examine how social culture and connections shape investor behavior, exploring the influence of clan culture on lending, superstitious beliefs on fund managers' trading, and social ties on mutual funds' voting on corporate proposals.

The first essay, *"Impact of Culture in Peer-to-Peer Lending"* documents that culture and cultural perception both influence financial decisions. We examine the impact of clan culture, an important dimension of Chinese culture, on individual lending behavior. Using data from RenRenDai, a leading peer-to-peer lending platform in China, we find that borrowers from regions with higher clan culture are more likely to get loans funded, attract larger bids from lenders, get loans funded faster, are less likely to default, and repay a larger fraction of their loans. These effects are more pronounced when borrowers are riskier, there is greater information asymmetry, and the legal environment is weaker. These results are robust to potential endogeneity concerns and to alternative measures of clan culture. We show that clan culture acts as a substitute for formal institutional mechanisms and participants in the peer-to-peer market use information about clan culture as a proxy for economic factors. Our results suggest that cultural considerations improve the efficiency of financial decisions.

Second essay, *"Funds and Zodiac Years: Superstitious or Sophisticated Investors?"*, examines how Chinese mutual fund managers react to superstitious beliefs. There is a widely held belief in China about bad luck during one's zodiac year, which occurs on a 12-year cycle around a person's birth year. We study Chinese funds' behavior related to this superstition. We find that fund managers are more likely to decrease their holdings of zodiac stocks, non-state-owned enterprises in the zodiac years of their chairperson. Fund managers make greater profits from trading zodiac stocks than from trading other stocks. The impact is more pronounced in firms with lower retail investor awareness indicating that fund managers possess an informational edge. They foresee markets' negative attitudes towards zodiac stocks and trade before investors react to superstitious beliefs. Fund managers with higher past ability are more likely to sell zodiac stocks.

Third essay, "*Feeling My Friend's Pain: Social Connections and Mutual Fund ES Voting*", shows that social connections transmit shocks that influence mutual fund managers' voting behavior on ES (environmental and social) corporate proposals. I find that fund managers are more likely to vote in favor of ES shareholder

proposals when they are more socially connected to counties affected by natural disasters. This effect is not driven by physical proximity, large disasters that attract significant media coverage, or other cross-county channels such as common ownership. Among E proposals, these effects are stronger for the more polluting firms, more highly contested environmental proposals, and funds led by women. Moreover, this influence is also reflected in fund managers' portfolio strategies. Fund managers who are more affected by social ties in one quarter tend to have portfolios with higher ESG scores in the following quarter. Additionally, when ES proposals fail, fund managers who have stronger connections to the affected areas are more likely to reduce their holdings in the company.