

Influence of Personality Traits on Delegated Investment Performance: Mediating Role of Soft Factors

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The delegated investments are a special instance of fiduciary relationships that may be influenced by various personal and behavioral aspects of investment professionals. For this reason, this study investigates the conditional impact of big five personality traits on the performance of investment professionals. Respondents included 248 investment professionals selected through a judgmental sampling technique with 94% being male within age range of 20 to 40 years. Responses were acquired on questionnaires that cover the aspects of personality traits (adopted from [Mayfield et al., 2008](#)); soft factors (adopted from [Ali, 2011](#); [Bäumer, 2020](#); [Deventer & Mlambo, 2009](#); [Helm, 2007](#); [Sultana et al., 2017](#); [Saudi, 2014](#)), investment decisions (adopted from [Ahmad, 2021](#)) and investment performance in delegated investments (adopted from [Fairbank et al., 2006](#)). Findings revealed significant mediating effects of agreeableness on the long-term investment decisions and the performance of investment professionals in Pakistan. In addition, soft factors mediated between the relationship of personality traits and the performance of investment professionals observed. Results of the study contribute to literature related to behavioral finance and provide valuable insights for investors while deciding to delegate their investments to professionals. The novelty in our work is the relationship between personality traits and investment decisions tested in the context of delegated investments with mediating effects of soft factors.

Keywords. Personality traits, investment professionals, delegated investments, soft factors

Behavioral finance elucidates the causes for deviation of individuals' actual decisions from expected ones and deviation of financial markets' behavior from the predictable behavior. There are

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various factors that have been observed to be responsible for influencing investment decisions of individual investors for instance income levels, risk tolerance, risk perception, awareness of available investment opportunities, personal preferences, personality etc. Some of these factors cause preventing investors from participating in the financial markets and hence may prove to be a risk for a healthier economy (Panga et al., 2018).

Decision making is not necessarily a rational process always; rather it may be influenced by some behavioral factors. Some investors do not have persistence in managing cash and some may act over information differently. Hence, the personal characteristics of individuals can explain their trading behavior and matching the characteristics of successful investors may help in making investment decisions. Thus, the assessment of personality is of prime concern for investors (Ashrafi & Rajablou, 2020).

Personality traits are one of those factors that affect ability to make financial decisions of investors. Personality is a structured set of individualities own by a person that distinctively influence his or her behaviors, cognitions, and motivations in different circumstances. The five dimensions or traits of personality as per present theorists include agreeableness, conscientiousness, extraversion, neuroticism and openness to experience (Yunus et al., 2018). Hence, the magnitude of investment returns thus enlargement of financial markets is affected by these personality traits. These improvements in financial markets result in economic development because the economic growth of a country is interconnected with the expansion of financial markets (Kamath et al., 2023). The contentment and happiness in life is achieved by attaining financial welfare that may result through gains in investments (Fachrudin et al., 2022).

Personal characteristics have been observed to have significant effect on the financial risk tolerance of investors. Researchers have uncovered that different personality traits have different effects on the risk tolerance and financial behavior of investors. Since investors, due to having limited knowledge and expertise of financial products need to rely on some investment professionals for making their financial decisions. Hence, these investors should have a clear understanding of all the factors that may affect the decisions making of these professionals which will ultimately affect financial prosperity of investors (Ozer & Mutlu, 2019). Searching for good managers involves cost and requires investor's sophistication for this task. However, when the effort investors make to search managers for their investments is not adequate or they do not have ability to distinguish between good or bad managers; then it may cause entrance of

inefficient managers in the market. It may only be avoided if due diligence for selecting optimal investment managers gets economical (Malliaris & Malliaris, 2021). Hence, it is important to understand the factors that affect delegation decisions (Holzmeister et al., 2023).

In most of the technologically advanced countries, wealth is usually managed by some expert intermediaries. This arrangement indicates the presence of some agency contract between investor and investment manager. Share of this delegated management has been increased in many countries during the last decade. Hence, it is a vital agency relationship that has its effects on the economy at macro level. A good agent is one who can better learn and understand the market signals. Institutional investors delegate ninety percent of their assets to professional managers under alternative investments. Large informational asymmetries while investing under alternative asset classes urge investors to have faith in these investment professionals against a fee. Delegating investments to professional investment managers can benefit investors because these professionals have specific expertise, information advantage, cost advantage and access to some difficult ventures. However, this delegation may expose investors to risks associated with the agency relationship (Andonov, 2022).

Several studies have been conducted on the impact of personality traits on the investment intentions and decisions of individual investors. For instance, Sadiq and Khan (2019) revealed through the application of big five personality traits that the personality traits of extraversion, conscientiousness and agreeableness have a positive effect on short term investment intentions of individual investors. Moreover, the personality traits of extraversion and conscientiousness have significant positive effects on long term investment intentions. Widjaja and Sembel (2020) uncover that investors with high agreeableness have low investment intention for the startups in Indonesia whereas investors with high conscientiousness have high investment intention. Jiang and Yang (2015) also investigated the effects of personality traits on investment decisions. Neuroticism and openness to experience show up in their explanatory power for equity investments. Investors with high neuroticism and those with low openness are inclined to invest less in equities. According to Awan and Sahar (2021), investors need to make their decisions about investment picks on logical basis. However, the range of investment options is limited to some of their cognitive factors, for instance their beliefs, knowledge, and impulses that create complications in their investment decisions. They found that individuals having quality of openness are usually determined and thus have positive impact on

investment decisions. Conscientiousness and extraversion are also positively related to investment decisions. Moreover, conscientious and extravert individuals have been found to make careful decisions after having appropriate information about internal and external environment. However, negative relationships have been observed for agreeableness and neuroticism with investment decisions.

Nevertheless, there is rarity of research that has been conducted in terms of delegated investments where personality traits of investment professionals may also affect the decisions they make on behalf of actual investors. According to Willis Towers Watson (a global brokerage and advisory company), the management of delegated investments involves providing strategic advice and help in making its application possible for their clients. In this way, the mechanism of delegated investments is a type of agency relationship because investment managers here serve as agent for acquiring information and making investment decisions on behalf of real investors, the principal. Besides, this study also tested the mediating and moderating effects of various soft factors in the causal relationship between personality traits and performance of investment professionals in Pakistan under delegated investments that has not been executed earlier. In consideration of the above importance of delegated investments and the personality traits that may govern the decisions of these investments; this study has been conducted to test the role of five prominent personality traits including neuroticism, extraversion, openness to experience, agreeableness, and conscientiousness; in the decisions of investment professionals for their clients and consequent performance, subject to the mediating influence of various soft factors including corporate culture, corporate governance, potential of company's management, environment reputation, trust, and social factors.

Rationale

Pakistan is a developing country having a very low literacy rate that is the main reason for its slower economic growth (Rehman et al., 2016). As per Standard and Poor's Rating Services, only 26 per cent of the population in Pakistan is financially literate (Klapper et al., 2015). Growth of a country's economy is interrelated with the growth of financial markets as mentioned earlier (Kamath et al., 2023). However, people with the existing level of education and financial literacy may not have the required understanding about the mechanism of financial markets in Pakistan. Therefore, investment professionals (investment managers, money managers, portfolio

managers, security brokers, financial analysts etc.) may help them using these financial markets and converting their idle savings into investments. However, the personality traits of investment professionals may be different from those of investors thus may lead them to make decisions those are not as per investors' desire and return requirements. Therefore, it is worthwhile to understand personality traits that may affect decisions in a positive or negative way and then comparing these traits with ones' being selected by investors to delegate their investment decisions.

The major objective of this study is to determine the impact of the big five personality traits (neuroticism, extraversion, openness to experience, agreeableness, and conscientiousness) on the investment decisions and performance of investment professionals in Pakistan.

Hypotheses

1. Traits of agreeableness, conscientiousness, extraversion, neuroticism and openness to experience would be positively related with performance of investment professionals under delegated investments.
2. LVS of soft factors and short-term investment decisions would mediate the relationship between the personality traits (agreeableness, conscientiousness, extraversion, neuroticism and openness to experience) and the performance of investment professionals under delegated investments.
3. LVS of soft factors and long-term investment decisions would mediate the relationship between the personality traits of agreeableness, conscientiousness, extraversion, neuroticism and openness to experience) and the performance of investment professionals under delegated investments.

Method

Sample

This research is based on 248 responses from investment professionals serving in the capacity of investment managers ($n = 74$, 30%), portfolio managers ($n = 19$, 8%), fund managers ($n = 14$, 6%), investment bankers ($n = 28$, 11%), security brokers ($n = 33$, 13%) and financial/investment analysts ($n = 80$, 32%) in Pakistan. These professionals are selected using judgmental sampling technique because exact population of this source could not be obtained from any reliable source. The investment professionals all over Pakistan

have been approached through social media platforms specifically LinkedIn and Emails. Since the population could not be known, therefore, an appropriate sample has been taken based on the efforts to approach maximum. The questionnaires were disseminated to 450 professionals; however, only 265 responses could be obtained despite of all possible efforts. However, 248 of them are screened out based upon their relativity with the study. Most of these respondents are aged between 20 to 40 years ($M = 32.05$; $SD = 0.78$), having Masters degree ($n = 138$, 56%), graduate ($n = 57$, 23%), undergraduate ($n = 35$, 14%), others ($n = 18$, 7%) and medium risk tolerance ($n = 150$, 61%).

Instruments

Data from the investment professionals in Pakistan has been collected from the selected sample of investment professionals through a closed-ended, self-administered questionnaire for investment professionals. These questionnaires cover the aspects including personality traits, soft factors, investment decisions and resultant performance of investment professionals under delegated investment management in Pakistan.

All items of the questionnaires are based on a 5-point Likert scale ranging from *strongly disagree* (1) to *strongly agree* (5). The items/questions specified for soft factors have been adopted from [Ali, 2011](#); [Bäumer, 2020](#); [Deventer & Mlambo, 2009](#); [Helm, 2007](#); [Sultana et al., 2017](#); [Saudi, 2014](#); and items for investment decisions adopted from [\(Ahmad \(2021\)\)](#) and items for performance of investment professionals adopted from [\(Fairbank et al. \(2006\)\)](#) respectively. Personality trait of neuroticism has been tested through 5 items (NEU1-NEU5); extraversion tested through 4 items (EXT1-EXT4); openness to experience used 5 items (OPEX1-OPEX5); agreeableness used 4 items (AG1-AG4); and conscientiousness is tested through 6 items (CON1-CON6). Items for all these personality traits have been adopted from [\(Mayfield et al., 2008\)](#).

For all the above items, item loadings > 0.50 reveal indicator reliability ([Hulland, 1999](#)). All Average Variance Extracted > 0.50 indicate convergent validity ([Bagozzi & Yi, 1988](#); [Fornell Larker, 1981](#)). All Composite Reliability > 0.70 indicate internal consistency ([Gefen et al., 2000](#)). Rho Alpha > 0.70 for most of the constructs indicate indicator reliability except conscientiousness, openness to experience, short term decisions and long term decisions ([Henseler et al., 2015](#)). However, these four constructs meet reliability criteria as per [Chin \(1998\)](#) according to which Rho_c is the closer approximation

assuming that parametric estimates are accurate for reflective measures.

Procedure

It took around a period of four months to approach investment professionals and to get their responses for the survey questionnaires. Respondents were approached on an individual basis and responses were collected from investment professionals after having their consent and confirming to them that the information provided would be kept confidential and would only be used for the purpose of this study.

Results

Descriptive statistics and confirmatory factor analysis have been performed on the responses collected through the questionnaires for the items that remained and analyzed after their reliability and validity analysis.

From big five personality traits, agreeableness has been tested through single item AG1 and its mean response is found to be 4 that is agreement to the factor. Response of one out of four items of conscientiousness CON1 found to be 'agree' whereas remaining three items CON3, CON4, and CON5 showed 'neutral' response for these factors. Mean response for extraversion from three items EXT1, EXT3, and EXT4 has also been received as agree. For one item of Neuroticism NEU1 respondents showed their 'disagreement' to the factor whereas the rest of the four items NEU2, NEU3, NEU4 and NEU5 received a neutral response. The fifth personality trait openness to experience, received agreement from respondents to the three factors OPEX1, OPEX4 and OPEX5.

Descriptive statistics of seven variables of soft factors including personality of company's management, environment, social factors, corporate governance, reputation and trust are as follows. All ten questions to test potential of company's management from PCM1 to PCM10 secured the response as 'agree' as reflected from the mean value of approximately '4' in all statements. For seven statements to test the environment of the company in which professionals intend to invest, mixed results have been found. A neutral response has been received for only two statements, i.e. ENV1 and ENV2. Respondents showed their agreement for the five remaining items of environment from ENV3 to ENV7 as can be verified from the mean values of 3.5 or greater for these five items. Respondents have recorded their

response as 'agree' for all eight social factors that is appeared from the mean values in between 3.5 to 4 for the statements from SOC1 to SOC8. Mean response for nine factors of corporate governance has also been observed to be 'agree' as mean values of items from CG1 to CG9 are lying somewhere around 4. Six from the total seven items of reputation, got the response of professionals as 'agree' as mean values of REP1 to REP6 are nearly 4. Only one statement REP7 got neutral response from professionals. Five statements of corporate culture including CC1, CC2, CC3, CC4 and CC8 remained after removal of invalid/unreliable items. All these five items secured neutral response from the professionals. Three items of trust TR1, TR5 and TR6 have been testing trust for which the response of 'agree' has been recorded by respondents. On average, investment professionals responded to be 'agree' for seven questions of the performance of investment professionals from PERF1 to PERF7.

All soft factors, personality traits, investment decisions and Investment Performance, meet the criteria of internal consistency reliability as per the confirmatory factor analysis reported in the section of measures above.

All diagonal values in the Fornell-Larcker Criterion are the highest. Hence, all the major constructs in study meet requirements for discriminant validity as per (Fornell & Larcker 1981). Every item in the cross loadings is loaded highest to its latent variable across columns. Hence, all the study constructs are meeting criteria of discriminant validity (Chin, 1998). All values in the Heterotrait-Monotrait Ratio results are below .85 that ensure discriminant validity.

Mediating effects of soft factors have been tested over the relationship between big five personality traits and the performance of investment professionals in Pakistan. In the first step, latent variables scores (LVS) of soft factors have been calculated. In the second step, effect of big five personality traits have been tested over the performance of the investment professionals in Pakistan with the mediating effects of LVS-soft factors and investment decisions.

Table 1: *Fornell-Larcker Criterion*

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Agreeableness		-													
2. Corporate Culture	-.16	.70	-												
3. Corporate Governance	.36	-.07	.72	-											
4. Conscientiousness	.29	-.26	.19	.71	-										
5. Potential of Company's Management	.28	-.06	.56	.27	.73	-									
6. Environment of Investee Company	.21	.10	.34	.17	.34	.78	-								
7. Extraversion	.17	.19	.22	.21	.26	.23	.81	-							
8. Long Term Decisions	.20	.15	.14	.15	.33	.27	.25	.77	-						
9. Neuroticism	-.18	.41	-.14	-.46	-.23	.01	.00	.75	.76	-					
10. Openness to Experience	.39	.31	.29	.15	.28	.13	.30	.25	-.06	.77	-				
11. Performance of Investment Professionals	.25	.15	.12	.11	.16	.17	.25	.34	-.06	.26	.73	-			
12. Reputation	.15	.27	.36	-.09	.34	.41	.21	.28	.18	.19	.17	.72	-		
13. Social Factors of Investee Company	.24	.09	.40	.18	.38	.71	.17	.28	.00	.17	.17	.54	.78	-	
14. Short Term Decisions	.16	.14	.11	.06	.09	.08	.22	.21	-.01	.25	.41	.08	.03	.71	-
15. Trust	.36	-.03	.55	.28	.52	.15	.11	.23	-.16	.32	.25	.23	.22	.18	.79

Table 2: *Mediating Role of Soft Factors and Investment Decisions Between Personality Traits and Investment Performance*

Variables	Direct Effects			Indirect Effects (Soft Factors & STD)			Indirect Effects (Soft Factors & LTD)		
	β	t	p	β	t	p	β	t	p
Criterion Variable: Investment Performance									
Agreeableness	0.03	0.36	.71	0.01	1.5	.13	0.01	2.27	.02
Conscientiousness	0.03	0.35	.72	0.01	0.94	.34	0.01	1.26	.21
Extraversion	0.07	1.27	.2	0.01	1.26	.20	0.01	1.68	.09
Neuroticism	-0.06	0.87	.38	0	0.75	.45	0.03	0.77	.43
Open.to Exp.	0.05	0.75	.44	0.01	0.95	.34	0.01	1.3	.19

Note. STD = Short-Term Decisions, LTD = Long-Term Decisions.

Results presented in Table 2 reveal that there is indirect-only mediation as per Zhao et al. (2010). This is because no direct effect of any of the five personality traits is observed on the performance of investment professionals. However, the one personality trait agreeableness found to have significant effect on performance if mediated by LVS soft factors and long-term investment decisions made by the investment professionals mentioning specific indirect effects. Hence, with respect to agreeableness, the mediator identified is consistent with hypothesized theoretical framework (Zhao et al., 2010).

Discussion

According to Kamath et al. (2023), personality traits of investors have strong effects on their investment decision making. The earlier research for instance Fachrudin et al. (2022), Sadiq and Khan (2019), and Widjaja and Sembel (2020) has also been conducted over the relationship of personality traits and investment decisions of individual investors. The results of the present study are supporting these studies to a limited extent while conducted in the scenario of delegated investments and investment professionals rather than actual investors. As per our evaluations, no direct relationship has been observed between any of the personality traits and performance as per path coefficients mentioned above did not support the H1. These results are in contradiction of the study by Hasib (2020) in which direct relationship has been observed between personality traits and performance of investment professionals.

The analysis of the indirect path examining the mediation of LVS soft factors and short term investment decisions reveal that no mediation of soft factors and short-term investment decisions exists between any of the personality traits and the performance of investment professionals thus not supporting H2. However, significant relationship has been observed between agreeableness and performance of the investment professionals if mediated by LVS soft factors and long-term investment decisions; thereby supporting H3 somehow consenting to the referred study by (Hasib (2020) where mediation though partial of the social factors has been witnessed between personality traits and investment decisions. Hence, the results validate that personality contributes significantly in decision making under certain conditions as mentioned by Harini and Subramanian (2023). These results endorse the full mediation of soft factors and long-term investment decisions between agreeableness and performance of investment professionals as per Zhao et al. (2010). However, as per observation of relationship between the personality traits and investment decisions (short term and long term), two of the personality traits that are agreeableness and extraversion have direct relationship with long term investment decisions.

Moreover, indirect relationships of agreeableness and extroversion have also been observed with long term investment decisions if mediated by LVS soft factors. The said relationships support existence for partial mediation of LVS soft factors between agreeableness and long-term investment decisions as well as between extraversion and long term investment decisions. These results indicate that no one from the big five personality traits neuroticism, extraversion, openness to experience, agreeableness, and conscientiousness directly affect performance of investment professionals. However, if investment professionals have the characteristics of agreeableness, then it would affect their performance only in the collective presence of soft factors including corporate culture, corporate governance, potential of company's management, environment, reputation, trust, and social Factors. These findings are in contradiction with Trang and Khuong (2017) that confirmed no relationship between agreeableness and investment performance. In addition to this, the qualities of agreeableness and extraversion affect the decision making ability of investment professionals directly endorsing the study findings of Bashir and Shah (2019) where the personality traits resulted in the direct effects on investment decisions of individual investors, as well as the effects on investment decisions in the presence of LVS soft factors as were in the presence of risk attitude in the referred study. Said observations endorse the presence

and effectiveness of five factor models of personality traits explaining how the big five personality traits come into play and affect decisions and performance of investment professionals. Hence, selecting an investment professional bearing specific personality trait requires careful assessment by investors (in order to avoid agency conflicts that may arise as per agency theory due to the separation of management and ownership) and to derive maximum benefit from their investments.

Limitations and Suggestions

This study tested the impact of big five personality traits on investment decisions. Involvement of one out of five traits has been witnessed from the results. However, the responses for this research have only been collected from all provinces of Pakistan only. Hence, this research may be conducted as a comparative study for the developing countries in the world. Moreover, influence of personality traits on performance of investment professionals may also be tested in a developed country where the system of financial markets and transactions is more advanced. One mediator namely 'soft factors' has been used in this research. Therefore, the same relationships may also be tested with some other related factors that can mediate the relationships.

Implications

This study has vigorous implications for investors in selecting competent professionals for managing their investments. Individuals as well as institutions can raise their investment returns through efficacious investments. On the other side, investment professionals can focus on the specific traits they have to avoid the ineffective investment decisions and resultant performance. The outcomes of this study suggest that the personality trait of agreeableness significantly affects the performance of investment professionals only if it is mediated by soft factors and investment decisions. Therefore, the investment professional who can make an optimal combination of agreeableness and the seven soft factors discussed in this study will be able to make investment decisions that at one end will benefit investors in form of attractive returns and on the other end will enhance compensations for the investment professional based on these returns.

Conclusion

The uniqueness of this study is to identify the gaps in earlier pieces of research related to the impact of personality traits on investment decisions and performance of investment professionals under the mechanism of delegated investments by remodeling with some mediating effects. This study is different in a way that it has identified the personality traits of investment professionals that may affect their decision making and performance when they make investment decisions on behalf of their clients. Hence, the very first limitation in earlier research, this study has made an attempt to address and fix is to replace research respondents from investors to the investment professionals in order to shed light on delegated investments. Though, all personality traits have not been found to affect investment decisions and performance. However, agreeableness is found to have significant effects on investment performance via intervention of soft factors and investment decisions. The conditional influence of personality characteristic on performance reveal that selecting an affective professional manager considering their personality traits who can better align with other internal and external factors is the key to earn desired returns and sustainable growth in investments.

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