The Effect of Reference Groups on Motivating and Encouraging People to Invest in the Stock Exchange (Case Study: Lorestan Stock Exchange)

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Abstract: This study aims to investigate the effect of reference groups on motivating and encouraging people to invest in the Lorestan Stock Exchange. This study has a main hypothesis and eight secondary hypotheses addressing the effect of close friends, classmates and colleagues, family members, religious figures, teachers and professors, politicians, artists and athletes on motivating and encouraging people to invest in the Lorestan Stock Exchange. The present study is a descriptive survey in terms of data collection. The statistical population includes all individual investors in the Lorestan Stock Exchange. The statistical sample includes 267 people using Cochran formula. Simple random sampling refers to the data collection based on a researcher made questionnaire. Data are analyzed using one sample t test and the binomial and Friedman test. The results show that family members, close friends, colleagues and classmates are effective in motivating and encouraging people to invest in the stock exchange and family members are the most effective ones in this context.

Key words: Reference groups, investment, Lorestan Stock Exchange, motivating, members

INTRODUCTION

Discussion of the reference group as an evaluation criterion of behavior and belief and the source of inductance for values and social norms in the individual is placed in the context of the interaction and impact of individual and group. Their individual understands sociality through encountering with the counterparts. In other words, a person's perception about himself is formed on the basis of the perception of others. A person follows behavioral patterns that are approved by people who are important for him (Kuzaran and Lou Rosenberg, 1999). In fact, the reference groups include the socialization and the social factors that affect a person's social identity formation (Hashemi, 2002). Investment leads to the economic growth, growing collection of workforce, capital growth and improving the efficiency and of technical knowledge in the form of productivity. Each of these sources contributes to growth. But the most important factor is the growth of capital which investment plays an important role in determining it (Sharif, 2008). In the decision-making process, people and motivating them to invest, there are many factors affecting the formation of human attitudes in society. Among, the most important factors, there are individuals or groups that are the basis and criteria for judging and evaluating social actors which they called reference groups. Reference groups will play two major roles: first, they induce norms, practices, values and beliefs to others which are called normal

function. Second, they provide the actors with standards and criteria to evaluate their attitudes and actions which are called comparative and contrast function (Sarvestani *et al.*, 2002). As it was explained, one of the issues that people are facing is investment for the future. According to numerous investment opportunities in Iran and the lack of sufficient investment from an individual or group of individuals, Stock Exchange can play a constructive and effective role in this regard. Therefore, identification of factors affecting investment in the stock exchange can be considered as the starting point to attract public participation. Of course, these factors can be detected in the individual (natural persons), collective (legal persons), or foreign investment area. According to the mentioned definitions, this study aims to investigate the effect of reference groups on motivating and encouraging people to invest in the Lorestan Stock Exchange.

Reference groups: Sociologists do not consider any society of people as a group. In fact, human collections can be divided into three categories:

- Collection
- Category or class
- Group

Groups are divided into three categories based on some features: content or performance, the degree of

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personal involvement and the degree of structure. It is needed to explore several key concepts that are part of group assets for a better understanding of the nature of the group. These concepts include: location, norms, roles, socialization and power.

The reference group is one of social factors affecting the behavior of individuals. Reference group refers to a group of people that a person is directly or indirectly associated with them and they affect his behavior (Esmaeilpoor, 2010). Reference group is one of the social groups that an individual use it to evaluate his value in comparison with others. In other words, a person uses it for his actions and judgment. One of the sociologists who first used this term believes that forasmuch as the position or social status of a person is defined through other people's relative position, one's perception of status depends on a particular group of people that he compares himself with it and people usually accept the values that are taught by reference groups (Kuzaran and Lou Rosenberg, 1999). Reference groups are divided into two types:

- The primary group is usually fairly small and is made up of individuals who generally engage face-to-face in long-term emotional ways such as family, friends and classmates
- Membership group: membership group refers to a group that a person belongs to it such as family, school, associations, clubs, etc. (Esmaeilpoor, 2010)

Reference groups are important because they form models for judgment and evaluation of oneself. Therefore, people need to have standards that are provided through the reference groups to evaluate their behavior, talent, physical appearance, values and many other characteristics (Stern and Suzanne, 1953).

Reference groups play a decisive role in shaping and changing social attitudes and thereby they affect human behavior even in purchasing. In fact, the most important effect of reference groups on people is shaping their attitudes because people adjust their positions and thoughts based on reference groups and compare their ideas with them. In the study of reference groups, social attitudes and how they are shaped and changed have an important position (Hashemi, 2002).

Category of Reference Group: Reference groups are generally divided into three categories are given there.

Aspirational reference group: Groups that people admire and desire to be like with them but are not currently a member of.

Associative reference groups: Groups to which people actually belong such as ethnic, gender, geography and age group to which a person belongs is known through these groups.

Dissociative reference groups: Groups whose attitudes, values and behaviors people disapprove of and do not wish to emulate such as the small ethnicity with a specific culture in a country with a different culture.

According to another category of reference groups, there are three types, including: multiple reference groups, comparative reference groups and normative reference groups. Reference groups are studied in social psychology, sociology and business.in respect with social psychology, Hyman and Singer in 1942 studied the reference groups. Newcomb and Sherif developed the theory of Hyman's reference group. However, the most important theory in this discussion is social comparison theory, initially proposed by social psychologist Festinger (1954). Although, this theory is different from the theory of reference group but has the same content i.e. the effect of group on person. Charles Horton Cooley is the first prominent sociologist in relation to the interaction between group and person and the effect of groups on people. Another theory related to reference groups is "generalized other" is developed by philosopher George Herbert Mead. Therefore, Merton introduced Mead as one of the pioneers for the theory of reference groups (Merton, 1957). In addition, Tamotsu Shibutani is another commentator who directly discussed the concept of the reference group. According to Tamotsu Shibutani, there are three used for the concept of the reference group, including:

- The group which is the basis of the comparison and evaluation
- The group whose people desire to join and participate in it
- The group whose approaches are accepted by the actors

According to the business discussion of a reference group, it is considered as a small and distinct group in society based on shared and quite freely commitments and their interests to choose a specific product category or a specific brand (Hashemi, 2002).

Reasons for the effect of reference groups on consumer behavior (buying behavior): Generally, the reason of consumers for accepting the effect of reference groups is that they have special benefits. It is stated that the nature of social interaction between people is known through

perception of their interests. People always seek to maximize the overall benefit that is obtained by the difference between the costs and rewards. It can be said that people will choose a group for interaction with the highest level of benefits as well as the costs and rewards. People accept the effect of reference groups based on three reasons, including: benefit of information, utility oriented and expression of values (Hashemi, 2002). In fact, it is difficult to find a reference group in consumer markets. The prominent feature of industrial products is that they are only used by small and industrial groups because only certain consumers are engaged and the consumers are selected by relatively simple methods. Then, reference groups are selected from the specific reference group by collecting information or questionnaires. In the consumer products industry with millions of consumers, separation reference groups by methods such as survey is impossible. Identifying the reference groups in the consumer market is more difficult in the traditional way. Von Hippel (1986) suggests the following four steps to search for the members of the reference group in Marketing:

- An important market or systematic method is determined
- Reference groups are determined in terms of two features including the level of needs and experiences
- The required data are analyzed by the reference group
- The reference group leads the data to the overall market of benefits and profitability (Von Hippel, 1986)

The modified method to identify the reference group is through the competence of the customer. Prahalad and Ramaswamy (2000) defines the competence of the customer as follows: The competence that customers bring is a function of the knowledge and skills they possess, their willingness to learn and experiment and their ability to engage in an active dialogue.

Ganjoor (2000) conducted a study entitled "Evaluation of the interest of female students in Tehran universities toward political participation and factors affecting it". The statistical sample of this study included 300 students at Tehran and Alzahra University. The results of this study showed that family is the most effective factor in shaping people's attitudes and behavior and considered as the first priority in the reference group (Ganjoor, 2000).

Sarvestani *et al.* (2002) and Hashemi (2002) conducted a study entitled "Reference groups in sociology and social psychology with an emphasis on Merton and Festinger theory". In the results of this study showed that some factors are involved in the process of
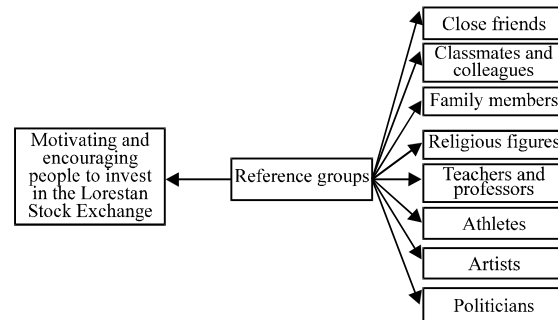

Fig. 1: The proposed research model from the reference group model Sabouri

the formation of attitudes, decisions and actions of individuals in society. Among the most important factors, there are individuals or groups that are the basis and criteria for judging and evaluating social actors (Sarvestani *et al.*, 2002).

Sabouri Khosroshahi conducted a study entitled "A review on reference groups of young people in Tehran". The results of this study showed that to some extent there is a tendency towards groups of outsiders among young people. Furthermore, the most influential groups in following the wishes and goals are family members and close friends and the least ones are artists, athletes and clergymen (Sarvestani *et al.*, 2002).

In this study, there are eight categories of reference groups including close friends, classmates and colleagues, family members, religious figures, teachers and professors, politicians, artists and athletes. The present study aims to investigate the effect of the mentioned groups on motivating and encouraging people to invest in the Lorestan Stock Exchange.

According to the mentioned issues, the proposed research model adopted from the reference group model Sabouri Khosroshahi is as follows (Fig. 1). Therefore, the research hypotheses are as follows: The main hypothesis of the research: reference groups are effective in motivating and encouraging people to invest in the Lorestan Stock Exchange.

Secondary hypotheses:
- H_1: Close friends are effective in motivating and encouraging people to invest in the Lorestan Stock Exchange
- H_2: Classmates and colleagues are effective in motivating and encouraging people to invest in the Lorestan Stock Exchange
- H_3: Family members are effective in motivating and encouraging people to invest in the Lorestan Stock Exchange
- H_4: Religious figures are effective in motivating and encouraging people to invest in the Lorestan Stock Exchange

- H₅: Teachers and professors are effective in motivating and encouraging people to invest in the Lorestan Stock Exchange
- H₆: Athletes are effective in motivating and encouraging people to invest in the Lorestan Stock Exchange.
- H₇: Artists are effective in motivating and encouraging people to invest in the Lorestan Stock Exchange
- H₈: Politicians are effective in motivating and encouraging people to invest in the Lorestan Stock Exchange

MATERIALS AND METHODS

The present study is an applied research in terms of the purpose and the research method is descriptive-survey in terms of data collection.

The statistical population and sampling method: The statistical population consists of all individual investors in the Lorestan Stock Exchange in the spring 2015. The population size is unlimited. The statistical sample includes 267 people using Cochran formula and the possibility of error is 0.05.

Instrument for data collection: In this study, the instrument for data collection is the questionnaire. In this questionnaire, Likert scale is used including a five point scale: very high, high, no idea, low and very low.
The first part assesses the demographic characteristics of respondents, including three questions and the second part includes 24 specific questions.

Reliability and validity: In this study, the logical validity is used. According to the professors and experts, the questionnaire has an acceptable validity. In this study, Cronbach's alpha is used to test reliability. About 20 questionnaires are given to the investors in the Lorestan Stock Exchange. After completing the questionnaire, Cronbach's alpha coefficient of the questionnaire is 0.84. Hence, the questionnaire has an acceptable reliability.

Data analysis method: In this research, descriptive and inferential statistics are used. Tables of frequency and percent frequency and charts are used to describe data. To test the hypotheses, the data distribution is examined using Kolmogorov-Smirnov test (K-S test). If the data distribution is normal, the one-sample t-test will be used. If the data distribution is not normal, the Binomial test will be used. The Friedman test is used to rank the factors encouraging people to invest.

RESULTS AND DISCUSSION

After collecting the data through the questionnaire, data should be analyzed. According to Kolmogorov-Smirnov test to analyze data, if the significance value of a variable is <0.05, the Binomial test will be used. If the significance value of a variable is >0.05, the one-sample t-test will be used for data analysis. According to the results of the hypotheses, the main hypothesis is normal and the secondary hypotheses are not normal. Results for the main hypothesis suggest that the mean value is 51.01 and the standard deviation value is 12.661. Forasmuch as the significance value is <0.05, the reference groups are effective in motivating and encouraging people to invest in the Lorestan Stock Exchange. The obtained results of this study are consistent with the results of the studies conducted by Sabouri Khosroshahi and Hamzaie.

For the secondary hypotheses, the obtained results of the first, second and third hypotheses show that the significance value is >0.05. Therefore, close friends, classmates and colleagues and family members are effective in motivating and encouraging people to invest in the Lorestan Stock Exchange. The obtained results of the 4-8th hypotheses show that the significance value is >0.05. Therefore, religious figures, teachers and professors, athletes, artists and politicians are not effective in motivating and encouraging people to invest in the Lorestan Stock Exchange. The first secondary hypothesis ranks second with the mean value of 5.84. In other words, it is the second factor affecting people to invest in the Lorestan Stock Exchange. The second secondary hypothesis ranks third with the mean value of 4.97. The 3rd secondary hypothesis ranks first with the mean value of 6.55. The 4th secondary hypothesis ranks eights with the mean value of 3.62. The 5th secondary hypothesis ranks fourth with the mean value of 3.80. The 6th secondary hypothesis ranks seventh with the mean value of 3.67. The 7th secondary hypothesis ranks sixth with the mean value of 3.77. The 8th secondary hypothesis ranks fifth with the mean value of 3.78 (Table 1).

Table 1: Results of the Friedman test to rank the factors encouraging people to invest in the Lorestan Stock Exchange

Dimensions	Rank mean	Rank
Close friends	6.55	1
Classmates and colleagues	5.84	2
Family members	4.97	3
Religious figures	3.80	4
Teachers and professors	3.78	5
Athletes	3.77	6
Artists	3.67	7
Politicians	3.62	8
$X^2 = 488.983$	df = 7	Sig. = 0.000

CONCLUSION

This study aims to investigate the effect of reference groups on motivating and encouraging people to invest in the Lorestan Stock Exchange. This study has a main hypothesis and eight secondary hypotheses addressing the effect of close friends, classmates and colleagues, family members, religious figures, teachers and professors, politicians, artists and athletes on motivating and encouraging people to invest in the Lorestan Stock Exchange. The results show that family members, close friends, colleagues and classmates are effective in motivating and encouraging people to invest in the stock exchange and family members are the most effective ones in this context. According to the research hypotheses and the roles of close friends, classmates and colleagues and family members in motivating and encouraging people to invest in the Lorestan stock exchange, it is suggested that stock exchange can motivate and encourage people to invest in the Lorestan Stock Exchange by the television advertisement to familiarize families with the stock exchange and holding introductory classes for them. In addition, distribution of brochures among families in Lorestan can to familiarize families with to invest in the Lorestan Stock Exchange.

People who have a share of stock are given manuals to learn more about their stock and motivate close friends and classmates and colleagues to invest in the Lorestan Stock Exchange.

SUGGESTIONS

Suggestions for future studies on reference groups: Investigating the role of the family and its effect on children's savings culture:

- Investigating the role of reference groups in other markets of stock exchange in other cities
- Investigating the role of reference groups and their role in investing in banks

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