CHAPTER 1

Introduction

1.1 Research Background

Gender comprises a range of differences between men and women, extending from the biological, social, to the economic perspective. At the biological perspective, male and female are typically distinguished by the cells they have. At the social point of view, gender has been defined as an individual's self-conception as being male or female, as distinguished from actual biological sex. Gender is socially constructed and each individual is unique in their gender characteristics. Hersch [1996] finds that women make safer choices than men when it comes to making risky consumer decisions such as smoking behavior, seat-belt use, preventive dental care, and having regular blood pressure checked. At the economic level, the difference in gender may affect the risk taken in selecting investment. Women and men have special characteristic that differentiate them in making decision. In Bernasek and Shwiff [2001], for example, gender is the most significant factor explaining the allocation of the defined contribution pension to stocks. They find men allocate more of their pension fund to stocks than women.

Women clearly continue to experience gender discrimination in the public sphere, despite women’s place supposedly being ‘in the home’ discrimination also permeates the private sphere. Women perform, and take responsibility for, most of the reproductive and community management work in the household: cleaning, cooking, shopping for household provisions,
managing household finances and maintaining extended family networks. Women also take most responsibility for caring: for children, for disabled or sick relatives and for elderly family members.

In the past, men dominated in economic sectors and top position in organizations. When dealing with financial decision making, one is often confronted with a gender stereotype. People come with the opinion that women are more risk averse than men. Obviously, this stereotype yields statistical discrimination of women. Female managers have to face “glass ceilings” in corporate promotion ladders more often than men since it is assumed that they are not taking decisions that are risky enough to result in high average returns (Johnson and Powell, 1994). But, in the recent year, the financial world has seen a dramatic increase in the number of women in professional investment positions. Kover (1999) stated that women investors account for more and more of the personal investing which occurs – by one estimate, nine out of ten women will be in charge of their family’s finances at some point. Given a phenomena that women are involved in personal and professional investing, it is important to understand gender differences which may influence investment decision.

Analyzing gender in investment decision will also support the development of one area in finance, behavioral finance. Behavioral finance are closely related fields that have evolved to be a separate branch of economic and financial analysis which applies scientific research on human and social, cognitive and emotional factors to better understand economic decisions by consumers, borrowers, investors, and how they affect market prices, returns
and the allocation of resources. The field of behavioral finance is focused on the psychological factors that lead to common investment practices. Gender is a good example of psychological factors because there are some differences between male and female’s psychology. There is still a little study about the behavioral finance, especially in Indonesia. Therefore, this study can support the development in behavioral finance.

1.2 Problem Statement

This study concerns about comparing gender differences in making investment decision. Although there is a large body of literature on other types of gender differences in pensions, examination of differences in investment behavior is a relatively new avenue for research. In particular, this study examines the differences between men and women with respect to their propensity to take risks in their investment. In some research, women are tend to be risk averse than men. They act more conservatively in making decision. Women will have more consideration in choosing investment tools and dividing the proportions the amount of money they are invested. Some questions arise relate to the gender difference in making investment decision:

a. Do differences in gender give some impacts to the investment decision?

b. Do women choose less risky investment than men?
1.3 Limitation of Research

This study only focuses on analyzing the impact of gender differences in selecting investment. Another variable will not be explained in this study. This research will use the sample from Yogyakarta, Indonesia. The samples limited on investors who are investing in direct investment and especially in securities and forex (currency trading). Other investors that are investing in, for example in gold, property, or other tangible assets, are not included in this research.

1.4 Objective of Research

The objectives of this research are to examine whether gender have some impacts to investment decision and women choose less risky investment than men. According to previous research, gender influenced someone in making their investment decision. Some researches also concluded that women tend to avoid risk when making investment. Therefore, this research goal’s is to provide an overview about the relation of gender in investment decision.

1.5 Benefit of Research

a. Researcher

Researcher will know whether there is a relation between gender and investment decision. The results of this study increase the researcher’s knowledge in gender characteristic and it relation to investment.
b. Company or someone who use this research

Financial professionals and educators can use the findings from the research to develop educational resources and services that take gender differences in financial behaviors into consideration. Specifically, financial advisors can give some advice to the clients not only the financial resources and services they need, but also how decisions are being made based on characteristics of each person.

c. Development in theory

Since there is still a little research about behavioral finance, this study can support some previous research and raise some important issues for future research.

1.6 Research Report Online

Chapter 1: Discussing the introduction about the research. The introduction consisted of research background, problem statement, limitation of research, objective of research, benefit of research, and research report outline.

Chapter 2: Containing the related theoretical background, previous research, and also the hypothesis development.

Chapter 3: Describing the population and sample used in this research, data and data gathering, measurement of variables, and method of analysis.
Chapter 4: presenting the empirical findings, discussing and analyzing the data.

Chapter 5: Providing the conclusion from this research, included limitation of the research and the managerial implication.