Catch me if I fall: Cross-national differences in willingness to take financial risks as a function of social and state ‘cushioning’

Claudia R. Schneidera,*, Dennis D. Fehrenbacherb, Elke U. Weverb

a Department of Psychology, Columbia University, New York, NY 10027, USA
b Department of Accounting, Monash Business School, Monash University, Caulfield East, VIC 3145, Australia
c Department of Psychology, Woodrow Wilson School of Public and International Affairs, and Andlinger Center for Energy and the Environment, Princeton University, Princeton, NJ 08540, USA

ARTICLE INFO

Article history:
Received 6 March 2015
Received in revised form 15 November 2016
Accepted 17 March 2017
Available online xxx

Keywords:
Cushion hypothesis
Financial risk-taking willingness
Cross-national comparison
Social support network
State support network

ABSTRACT

Knowledge about the existence and source of national differences in willingness to take risks plays a vital role in ensuring successful communication, collaboration, and understanding across countries, from the personal to the organizational and political/social domain. The current study investigates differences in financial risk-taking willingness between countries as a function of social and state ‘cushioning’, i.e. the extent of a person’s social support network and the state’s social-safety support network. The study compares large-scale household data and self-reports on willingness to take financial risks across three countries differing in their state support networks: Austria, Italy and the United States. Results show that personal social support network size influences risk-taking willingness (social cushioning). Furthermore, and most notably, we find evidence of an interactive relationship between social and state cushioning. High state cushioning renders the influence of social cushioning on financial risk-taking willingness less important. Contributions to management and business practice as well as theory on the influence of personal distance to financial support on risk-taking willingness are discussed.

© 2017 Published by Elsevier Ltd.

1. Introduction

Risk perception and risk preferences shape human behavior and decision making in virtually every area of life. From deciding whether to bungee jump, undergo cosmetic surgery, or invest in a promising stock, our willingness to take risks influences how we decide and behave in many situations. Among the factors that influence individual risk-taking, national background has been shown to play an important role (Hofstede, 1980, 1984, 1991, 2001; Hofstede, Hofstede, & Minkov, 2010; Rieger, Wang, & Hens, 2014; Weber & Hsee, 1998). The way people are socialized and educated in a given country influences their behavior as individuals, citizens, or within organizations, giving rise to distinct country-based cultural identities (Weber, Hsee, & Sokolowska, 1998). In an increasingly interconnected world with global commerce, it is of great importance to fully understand the role of country context on behavior and, in particular, risk perceptions and preferences (Delerue & Simon, 2009; Mihet, 2013; Rieger et al., 2014). Cross-national factors have been shown to shape risk-taking in a variety of business and management practices (Brown, Cavusgil, & Lord, 2015; Chow, Kato, & Merchant, 1996; Meschi & Riccio, 2008; Tse, Lee, Vertinsky, & Wehrung, 1988). Thus, managers of international teams or CEOs of multinational corporations need to understand and take into account differences in risk perception and risk preferences among employees of various cultures and backgrounds and of customers in different countries. Even though corporate culture may be able to reduce cross-country differences among employees, it cannot override national culture.

National culture has been shown to influence various important aspects of how risk affects firms, such as the cost of equity capital (Gray, Kang, & Yoo, 2013), the survival of international joint ventures (Meschi & Riccio, 2008), relational risk perceptions in alliance relationships (Delerue & Simon, 2009), and the choice of management controls (Chow, Shields, & Wu, 1999). Firms associated with high individualism cultures, low uncertainty aversion cultures, and low power distance cultures exhibit higher

http://dx.doi.org/10.1016/j.ibusrev.2017.03.008
0969-5931/© 2017 Published by Elsevier Ltd.

Please cite this article in press as: C.R. Schneider, et al., Catch me if I fall: Cross-national differences in willingness to take financial risks as a function of social and state ‘cushioning’, International Business Review (2017), http://dx.doi.org/10.1016/j.ibusrev.2017.03.008
levels of risk-taking (Mihet, 2013). Further, some evidence exists for the influence of culture on economic exchange. For instance, shared cultural heritage tends to increase foreign bank investments across countries (Owen & Temesvary, 2015) and improves economic exchange through trust (Guiso, Sapienza, & Zingales, 2009). At the individual level, national culture also influences business and management decisions associated with risk. For instance, there is evidence that national culture influences escalating commitment to risky investment projects (Salter, Sharp, & Chen, 2013), knowledge sharing decisions (Schulz, Salter, Lopez, & Lewis, 2009) and risk levels in investment decisions (Hsee & Weber, 1999; Weber & Hsee, 1998). Recently, a large international student survey showed high variation in the degree of risk aversion across 53 countries (Riger et al., 2014), concluding that risk attitudes do not only depend on economic conditions but also on cultural factors such as individualism and uncertainty avoidance.

In our study, we examine two factors, social and state support, that are, in part, reflections of the national cultures of countries (Hsee & Weber, 1999; Paufl-Effinger, 2005), and their influence on willingness to take financial risks. Social support refers to the personal support network individuals can draw upon for financial help. The influence of such social support networks on individual willingness to take risks has been demonstrated in experiments using undergraduates (Hsee & Weber, 1999; Mandel, 2003). This effect has been termed ‘social cushioning’ (Hsee & Weber, 1999; see also Weber & Hsee 1998): the larger the personal social network size the more individuals are willing to take risks, because the social support network cushions potential adverse effects of taking risks. Since social network sizes differ across countries (e.g., smaller in individualist countries and larger in collectivist countries), this hypothesis has been associated with Hofstede’s cultural factor of individualism vs. collectivism (Hofstede, 1991, 1980, 1984, 2001; Hofstede et al., 2010).

We examine another type of support network, namely a state’s social-safety net. We investigate whether state support networks can have similar effects as social support networks and whether these state nets moderate the effects of personal social networks on financial risk-taking willingness. Different levels of state support represent different forms of ‘state cushioning’ and capture the extent to which individuals can draw on the state for financial support. We argue that if state support is strong, there may be less need for a strong personal support network to cushion against risk. As such, state cushioning may be another avenue of cushioning against financial risk and may influence financial risk-taking willingness. In our study the influence of these social and state cushion effects on risk-taking are examined across three countries known to differ on the quality of state support, namely the United States, Italy and Austria, while controlling for variables known to affect risk preference, including the decision maker’s age, gender, and economic status (Friend & Blume 1975; Dohmen et al., 2011).

The contributions of our study are three-fold. First, it contributes to the international business and management literature by adding to the knowledge on cross-national factors associated with (financial) risk-taking (e.g. Riger et al., 2014). Second, it extends previous literature by testing the generalizability of the Weber and Hsee (1998) cushion hypothesis in two ways: examining it in a new set of countries across two continents, and with a large non-student sample of household heads. Third, our study examines an additional culture-level contributor to risk-taking, i.e. state cushioning, and provides important insights into the interaction between social and state cushioning. This contributes to the discussion on the influence of personal distance to money on risk-taking (Trump, Finkelstein, & Connell, 2015). The two networks we examine are at different distance from the decision maker. A social support network is closer whereas the state support network is more distant.

2. Background and development of hypotheses

Cross-national studies of individual risk-taking usually identify specific dimensions of cultural differences between the countries and relate these differences to risk-taking. Culture is defined as “that complex whole which includes knowledge, belief, art, morals, law, custom and any other capabilities and habits acquired by man as a member of society” (Tylor 1871). The influential cultural values framework developed by Hofstede (1980, 1984, 2001) and Hofstede et al. (2010) is arguably the most widely used and validated framework (Kirkman, Lowe, & Gibson, 2006; Liu & Dale, 2009; Schullz et al., 2009) of cultural differences and identifies six aspects of national culture: individualism, uncertainty avoidance, masculinity, power distance, long term orientation, and indulgence. Individualism is probably the most frequently studied cultural dimension and has been associated with risk preferences (Bontempo, Bottom, & Weber, 1997; Riger et al., 2014; Weber & Hsee, 1998). It has furthermore been used to develop the cushion hypothesis (Hsee & Weber, 1999; Weber & Hsee, 1998; Weber et al., 1998). The cushion hypothesis captures that in a collectivist culture, such as China, in contrast to a more individualist culture, such as the United States of America (Hofstede, 1991, 1980, 1984, 2001; Hofstede et al., 2010; Triandis, 1983), individuals are strongly elders (Trump, 2003) and have a stronger and stronger cushioning effect on financial support to the individual when needed. Hsee and Weber (1999) show that this social network serves as a ‘cushion’ so that Chinese (and only those Chinese individuals with extensive social networks) perceive risks of the same uncertain financial options as less risky compared to Americans. Social networks work as a collective risk diversification and insurance that mitigates the negative outcomes of risky options. This social diversification only provides a mechanism for risk sharing for outcomes that can be transferred between members of an extended family or social network, such as money, but not health or grades. This notion was supported by significant differences in financial risk-taking between Chinese and American MBA students but non-significant differences in risk-taking in medical and educational settings (Hsee & Weber, 1999).

Hsee and Weber (1999) confirm national differences in the size of social networks in China and America, and also show the mediating role of social support network size. The social network information, i.e. the number of people a person could call on for financial support, mediated the role of nationality (Chinese or American). That is, when Hsee and Weber (1999) controlled for the number of people from whom individuals could request financial help when in need, nationality no longer predicted risk-taking. Mandel (2003) provided further evidence that social networks and their size may influence risk-taking, showing that priming an interdependent self in college undergraduates by focusing them on belonging to a social group, as well as connectedness and harmony with that group, compared to priming an independent, individualistic self, led to more risk-seeking behavior in financial decision making. The effect was mediated by social network size of the undergraduates.

To investigate the effect of social cushioning on risk-taking, we use proxies of social network size in large-scale non-student household survey data from an extended set of countries that differs from the original set used to establish the cushion hypothesis.

---

1 It is important to note that although the cushion hypothesis was created using Hofstede’s individualism dimension as a distinction, it differs significantly from it. It predicts interactions between the extent to which a person has access to social cushioning and situational factors such as finances, health, or grades on risk-taking willingness. In the original Hsee and Weber (1999) study those situational factors had to do with whether the outcomes of the risky decisions people were making could be transferred to others. In our study we ultimately examine the interactive relationship with another variable, the state support network.
دریافت فوری مستندات
امکان دانلود نسخه تمام متن مقالات انگلیسی
امکان دانلود نسخه ترجمه شده مقالات
پذیرش سفارش ترجمه تخصصی
امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
امکان دانلود رایگان ۲ صفحه اول هر مقاله
امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
دانلود فوری مقاله پس از پرداخت آنلاین
پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات