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PROBING BEHAVIORALFINANCEFROM CROSSCULTURAL PERSPECTIVE

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I. ABSTRACT

Due to evolution of technology andits growing trends, the financial market has also started to reach the corners with ease. As a result of these developments, people are prone to the market performance and their behavioral pattern is varying between the actual and the rational (expected). This happens due to the effect of various factors and one among them is cultural factors. Having this as a key, this paper attempts to investigate how financial decision is influenced by various cultural dimensions. The different cultural indices among various countries and its impacts on the investment decisionsare analyzed.This paper posits that there may be a correlation between cultural dimensions and behavior of the investor.Reviews have given some scope to understandthe influence of Power Distance, Individualism and Uncertainty Avoidance Indices over Risk Diversification, Less Herding Behavior and High Safety Margins respectively.

II. INTRODUCTION

Financial sector is one of the major service sectors that bring growth to the other industries and brings great impact into the global economy as it's the prompting source to make the business alive across nations.

Sector includes banks, Investment companies, Insurance companies, real estate firms which seems to be highly volatile where investors decision on investment appears to be highly determined by their imbibed cultural factors. This enforces behavioral researchers to investigate various behavioral dimensions, to channelize their investment decision in a rational way.

The GDP as of October 2019 globally was $90 trillion where service sector contributes around 65.2% with the market capitalization of $7.9 trillion. The expected was $90 trillion and this massive gap will have to be filled by studying behavioral finance and taking actions for achieving it. But the asset of banking sector withstood was around $124 trillion in 2018.That being said, market estimates believe that by 2022, the financial services market is expected to reach $26.5 trillion, growing at a rate of 6% during the forecasted period. This is expected to reach as the fintech is growing and with help of that it is forecasted since the fintech share went up to 82% from the FY2017to FY2018 of about $32.6 billion.

The sector will continue to grow through technical innovation as developing countries continue to advance in how they edifice these services for their countries. Currently COVID-19 impacts the economy drastically and so the market volatiles a lot according to the investor's response. Therefore, to achieve these levels aggressively we need to analyze the *investor's practices, etiquettes they follow, efforts they take to make their financial decisions;* especially when economy is in crisis like the present pandemic COVID-19 among the countries; so that the financial institutions can make the irrational into rational.

LITERATURE REVIEW

Barter to Banking

Money is the essential entity of living the basic source of financing which arrived only after the civilization. Before the economic civilization, there was only the system of *BARTER* where people used to exchange things directly. (Thomas S. Evelyn, 1932). Barter is the system where one good is directly exchanged with another without the medium of money, a non – monetized economy and this primitive system was able to access when there is only the availability of double coincidence of wants in the market because of which the economical transactions was slow. This raises to the difficulties like lack of common measure, requirement of double coincidence of wants, difficulty in exchange of indivisible commodities, lack of efficient storage of value and lack of standard of deferred payments. (Dewett KK, 2005) These hurdles in Barter system lead to the ***invention of money as a medium of exchange*** in the economy after the civilization. This money was gone through various phases such as (i) Animal Money, (ii) Commodity Money, (iii) Metallic Money, (iv) Paper Money, (v) Credit Money along with the major feature as medium of exchange, storage of value and deferred payments. It was also basis for pricing, credit system and distribution. (Barry Dave, 2006).

When the money becomes the common unique measurement of value, it provides exact value for different levels of usage instead of goods exchange. So, the unused money is accumulated as savings which leads to the form of investing and the banking enters the economy to satisfy the need of the people and to protect their valuables. The excess of the money paved the way to credit the same to the needy which has resulted in credit transactions-lending and borrowing, consequently money market and capital market have developed. Thus, money is the basis of remodeling the savings into Investment and that investment tends to creation of banking system. (Dash P.C., 2006)

Modern Era – Behavioral Finance

In the traditional finance era, investors were expected to be rational and economic evaluators of their investments with the target of profit maximization. Even though at the various levels of expected risk and return, it assumes the investors to be indifferent. The few theories that are related to conventional finance are: Markowitz Portfolio Selection Model, Capital Asset Pricing Model (CAPM) and Efficient Market Hypothesis (EMH) (Riccardi & Simon, 2000). Consistent with these theories, stock exchange follows a stochastic process and investors want to realize utmost utility at any given level of risk. From this, the traditional finance theories emerged.

Conventional finance models quote that the investment decision making was always based on standard structure and rationality; Without considering the emotions of investor and their irrationality. (Amlan Jyoti Sharma,2016). But at the same time few factors such as prudence and precautious attitude, conservatism, under confidence, informational asymmetry, and financial addiction plays a major role in financial decisions. (Chandra.et.al.,2011) So, the main difference (or) the lag of the conventional finance is that it doesn't question why it's happening. (Eridanus Bikas et.al.,2012). As a consequence of the afore said factors here raises a point that the investors are not seems to be always rational. (Tseng KC,2006).Thus, Literature reviews clearly highlights that the period till 1950 was considered as conventional finance, from 1951-1990 was modern finance period and from 1990's the behavioral finance era has started (Dr. V. Raman Nair, 2015).

The disciplines of Sociology, Economics, Psychology and Finance have underpinned the discipline of Behavioral finance. Each investor is different in approaching the situations and it's the psychological influnce that makes them irrational in taking investment decisions. (Nidhi Kumari & Ashok Sar, 2016). Behavioral finance analyses the inefficiency and anomaly within the market and tries to seek out answers for the type of behavior that an investor displays while doing investment. It will make us understand why investors hold, purchase or sell stock without doing basic study and behave irrationally in investment decisions. (Amar Kumar Chaudhary, 2013).

Tversky and Kahneman were recognized as the father of behavioral finance since they have given the best models in different phases for the development of behavioral finance. In 1979, they presented a paper with special reference to critique of Expected Utility Theory which acknowledged empirically that individuals' underweight results that are merely credible in comparison with results that are obtained with certainty. Under prospect theory, worth is assigned to gain and losses rather than to final assets; additionally, probabilities are replaced by decision weights. The model which they established by experimentation predicts a distinctive quadrant pattern of risk attitudes, risk aversion for gains of moderate to high probability & losses of low probability and risk seeking for gains of low probability & losses of moderate to high probability. (Kahneman, D., & Tversky, A. ,1979).

The new theories also suggested that recreating the past flows will be the solution for knowing the future trends for their investment ideas and this leads to the irrationalities. (Barberis.et.al,1998). So, because of this investor considered the short-term momentum for their long-term investments may lead to the volatility. (Daniel.et.al.,1998). Increasing warning of anomalies, bubbles, market volatility and inefficiencies shows that behavioral finance is the up-sprouting field of finance (Redhead, 2008). This has got to be studied differently to urge an insight towards this field of finance. In these varying instances and market turmoil, the financial risk doesn't dwell what sorts of investments have we done, but in what sort of investor we are. For this, there are five sorts of investor profiles: very conservative, conservative, or moderate, balanced, growth oriented and dynamic or aggressive. (Titus SUCIU, 2015)

The pricing puzzle deviate the arguments of market efficiency to behavioral approach. Under conventional finance, the investor utilizes all the information properly and maximize the profit, by taking a risk averse method, and chooses the best efficient portfolio, whereas decisions based on behavioral finance approach are substandard as compared to conventional finance. (Nidhi Kumari & Ashok Sar, 2016).

Cultural Diversity

The attitude of people is influenced by many factors out of which culture is considered to be one of the vital reasons. In this developed economy, to deal with the international customers one has to come across their cultural values, to know how people react to the investment opportunities.

This paper focuses and compares the two hemispheres i.e. eastern and western countries using **Hofstede and Trompenaars model of cultural dimensions.** (Sergiu BĂLAN &Lucia Ovidia VREJA, 2013) to understand and derive tentative hypothesis, how financial decisions are being arrived due to the influence of those dimension as it has been identified as important deciding factor in various decision-making processes.

Trompenaars model – Cluster analysis

The Trompenaars model of seven cultural dimensions go with the criteria how people behave, how they respond to time and how they react to the situations. First five deals with the behavior towards people which are as (1) universalism versus particularism; (2) individualism versus communitarianism; (3) neutral versus emotional; (4) specific versus diffuse; (5) achievement versus ascription. And the last two are (6) sequential versus synchronous time, arises from the specific conceptions about the passage of time, and the last one, (7) internal vs external control,matters the understanding of the exact relation of people with their natural environment (Trompenaars & Hampden-Turner, 1997, pp. 8-10).

Universalism versus particularism - basically describes how the rules and regulations are being practiced. The western countries like United States, Canada, Sweden, and Germany seems to have Universalistic tendency, whereas the Middle East and eastern countries like Venezuela, Indonesia, China, and South Korea follow the Particularistic tendency (Trompenaars & Hampden-Turner, 1997, pp. 29-48). From these lines we may infer that while investing, the universalist may be more rational in making decision as they are tend concentrate more on rules and regulations without any deviations which is not so in case of particularists where they tend to take decisions according to changing scenarios.

Individualism versus communitarianism – Describes whether people willing to perform their duties and roles either individually or collectively (Trompenaars & Hampden-Turner, 1997, pp. 65-66). Western countries like United States, Canada will work individually and wish to own the responsibilities. Whereas some eastern countries like Japan, China and Singapore wish to be collectivistic and they appreciate the group performance over the individual performances. Because of the changing economy, the country like Mexico is also willing to work individually rather collectively which means their basic cultural values are getting moved from one pole to another pole. The eastern countries are more centralized to make decisions and so the investment decisions and the financial attitude towards the market seems to be considered collectively by the group (Luthans et.al,2012). So, here *impact of herding behavior intervention* is likely to be evidenced.

Neutral versus emotional dimension refers to the way in which people express the emotions, either hiding or expressing as and when situation arises. Countries like Sweden, the Netherlands, Finland, and Germany seems to elicit neutral character. Whereas Poland, Italy, France, Spain seems to be the other way round and there are chances for flexibility in all their decision-making process.

Specific versus diffuse dimension tries to differentiate people the way in which they treat their public and private space as same (or) with clear cut difference respectively. Westerners are seeming to be more Specific than easterners. This differences may affect the financial decision in such a way that Specific people since they are specific in nature external influence seems to be very less and there are chances to be more rational than people who are falling under diffused nature.

Achievement versus ascription - deals with how people status is viewed, Whether the status is achieved on their own or by their birth status. The eastern countries like Japan, China are seeming to be ascriptive whereas the Countries like US and UK is achievement oriented as per the research.

Sequential time versus synchronous time where people think time is important and values it extremely and the other think time itself is a flexible frame respectively. (Trompenaars & Hampden-Turner, 1997, pp. 117-138 Typical sequential-time cultures are: Germany, U.K., and the U.S.A. Classic synchronous-time nations consist of Japan, Argentina, and Mexico. (Hamaguchi, E.,1985).

The widely distributed countries are classified as five clusters which are shown in tables. The table 1 below shows the Anglo cluster is western and they have high individualistic and seems to concentrate on self and Pragmatic more than emotions whereas the Asian are the other way round.

Table 1. Trompenaars Anglo and Asian clusters

	Anglo		**Asian**				

			✖	✖	✖	✖	✖
	✖	✖					

			✖	✖	✖	✖	✖	
	✖	✖						
			✖	✖	✖	✖	✖	

		✖	✖		✖	✖	✖
	✖			✖			

	✖	✖					
			✖	✖	✖	✖	✖

The next clusters are Latin America and Latin Europe and the last cluster Germanic cluster which are shown in table 2 and table 3 respectively. From table 2 shown below, it is seen that the Latin Americans are more self-goal oriented whereas the Latin Europeans more generic. So, there are high chances to behave to the financial markets in a way that how they are influenced by the surrounding and elicit emotional behavior of Latin Europe and Latin America respectively.

Table 2. Trompenaars Latin American and Latin Europe cluster

	Latin American				Latin Europe			

	✖	✖		✖			✖	
			✖		✖	✖		✖
					✖	✖		

	✖	✖	✖	✖			✖	✖
					✖	✖		✖

	✖	✖	✖	✖			✖	
	✖	✖	✖				✖	
				✖	✖	✖		✖

	✖	✖					✖	
			✖	✖	✖	✖		✖

Finally, the table 3 below shows that the Germanic cluster they prefer the collectivistic development and it may make to them to behave in a safest manner.

Table 3. Trompenaars Germanic cluster

Clusters	**Germanic**			
Dimensions			**Switzerland**	**Czechoslovakia**
Individualism	✖			
Communitarianism		✖	✖	✖
Specific relationship	✖		✖	✖

Diffuse relationship		✖		
Universalism				
Particularism	✖	✖	✖	✖
Neutral relationship	✖			✖
Emotional relationship		✖	✖	
Achievement	✖	✖		✖
Ascri			✖	

	ption				

Hofstede model – country comparison

The Hofstede model consist of six dimensions such as ***Power Distance Index*** (PDI) which describes how people think power is distributed unevenly and executed in a country; ***Individualism Vs collectivism*** (IDV) which describe how they want to be as either “I” or “We”; ***Masculanity Vs Feminity*** (MAS) says how the the country is either entirely goal oriented or humanity is considered respectively;***Uncertainity Avoidance Index*** (UAI) how the society feels to face the future crisis, either it feels free or threatened; ***Long term orientation*** says how futuristic the country is and the last one is ***Indulgence***, how far the country is having freedom of disire (Hofstede Geert ,1991). Among these six, *Power distance and Individualism*seems to have huge impact over the nations in making financial decisions. (Emin Huseyin Cetenak et al., 2017).

From the below figure 1, the countries from the Anglo, Asian, Latin, and Germanic cluster are taken as US, China, Brazil, and Germany respectively. From the figure it is seen that Anglo are more decentralized and are independent, but they are less futuristic; So, their attitude towards the market seems to be very risk oriented and expecting a huge profit. Asians are centralized and restricted, but they are futuristic, and they behave collectively. Latin is less futuristic but centralized and these people’s behavior influence the finance market very rationally as they play safe. Germanic is decentralized and futuristic but then restricted too and so they appear to behave in a diversified manner towards the market and influence the market irrationally.This exhibits that Power Distance Index influences the risk diversification, Individualism leads to rationalization and Higher Uncertainty Avoidance brings high safety margins.

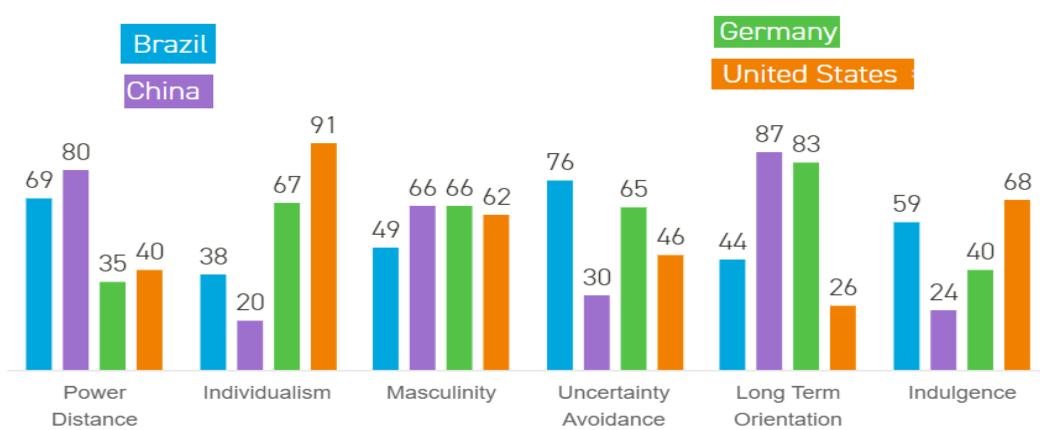

Figure 1. Hofstede 6 D model scores of Brazil, China, Germany, and US

Evidences of cultural Impact

In India, the survey says that the people immensely expect the moderate risk within the range of 15% - 20% return on investment; and to attain it, the investor must consider the market mechanism. (Jitender Singh, 2018) The Malaysian stock market was becoming more and more efficient day by day than before due to the new millennium ages in addition the investors are mutually rational and at certain times emotional every now and then because of which the market is noted to be volatile (Jasman Tuyon ET AL., 2016).

In Rome, since they are risk averse, investors are seeming to be insecure enough about their investments and so doubtful to make decisionswhich influence a large volume of market. In case of Brazil, the optimistic investors play a major role in influencing the capital market and for the reason of their positive behavior, the trading volumes are higher. (Camelia Opreana.et al., 2014).

If we see in the Middle East, in Tehran (Iran) market has been influenced a lot by irrational herd behavior irrespective of non-stockholder recommendation too (Abbas Toloie,Keyvan Dadras & Reza Radfar ,2020).Although in Saudi the survey results shows that the investors of Saudi are rich relatively in the Middle East subsequently their decision making is more rational in addition they don't herd in the meantime they think and evaluate smartly ; over and above they don't accept losses.(Talal Alquraan. et. al ,2016).

The advanced income investors only invest more in high risk oriented portfolios and the aged also fear to invest in risky large ROI thinking the retirement needs.(Fatimah Awadh S Almutairi,2020) Because of their knowledge Saudi people are over confident but its less compared to other developed countries like US , Japan , France and Germany besides developing countries like Egypt, Taiwan and Hungary.(Soleman Alsabban , 2020)

In US, women are better than men in investing (Barber, B., Odean, T., 2001) whereas in China both men and women are equally contributing in investment decision ;(Kenneth A. Kim et al., 2008) this may be because of the influence of individualism and collectivism respectively. In comparing US with Germany, the studies imply that Germans are more patient furthermore make better decisions since Germanic cluster is more collectively bonded. (Miriam Sowinski eta l.,2016). Investment decisions are directly correlated to the cultural indices such as power distance, masculinity, and individualism but long-term orientation was negatively correlated; hence the volatility arises (Chi-Hsiang Chang et al., 2015). If the two countries have similar culture, their stock market movement of those will be highly correlated. (Brian M. Lucey et al., 2010)

The overall excess volatility will lead to the individual risk as well rather the negative impact on stocks. (Feng Zhan, 2019). Investors are not ready to bear losses and want their equivalents at least (Loss Aversion) is supplementary key issue where investors are aware to attain it at least; the collectivist are ready to face loss but individualist are not so which may the reason why westerners must need to take loss aversion at least. (MEI WANG.et.al., 2017)Therefore, for an international investordespite the cultural differences, the diversification of assets across the world will reduce the risk of investors by lowering the cost of capital and East Asians are Picasso of it. (Syed Aun R. Rizvi, 2015).

Effect of Black Swan

Coming to the current pandemic situation covid-19, as everyone knows all the crisis will bring the great impact to the economy this pandemic situation also has its own impact on behavior towards investment decision (Baldwin,2020).

It seems that Asian countries show quick reactions to this pandemic than the other part of world does i.e. westerners show the bounce back at the later stages meanwhile as they are people who believe in sentiments and emotion and that led to the global downfall of AAR and CAAR which is shown below in figure 2. (HaiYue Liu., et.al, 2020).

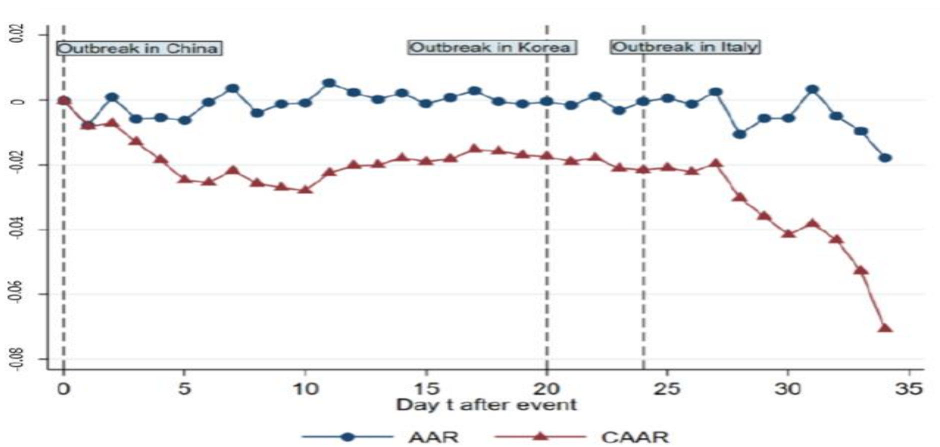

Figure 2. Average Abnormal Return (AAR) and Cumulative

Average Abnormal Return (CAAR) change from day 0 to 34.

Investors are behaving ferociously in short selling more than long during this pandemic COVID-19 and the weekly average of trading density is increasing which can be seen in the figure 3 shown compared to the previous months; and this herding behavior is anonymous. (Regina Ortmanny, 2020). As per the theories, the herding of crypto currencies must be stronger but due to this pandemic the herding of crypto currencies also wasn't greater than before because of the behavioral attitude of investors. (Larisa Yarovaya et.al. 2020).

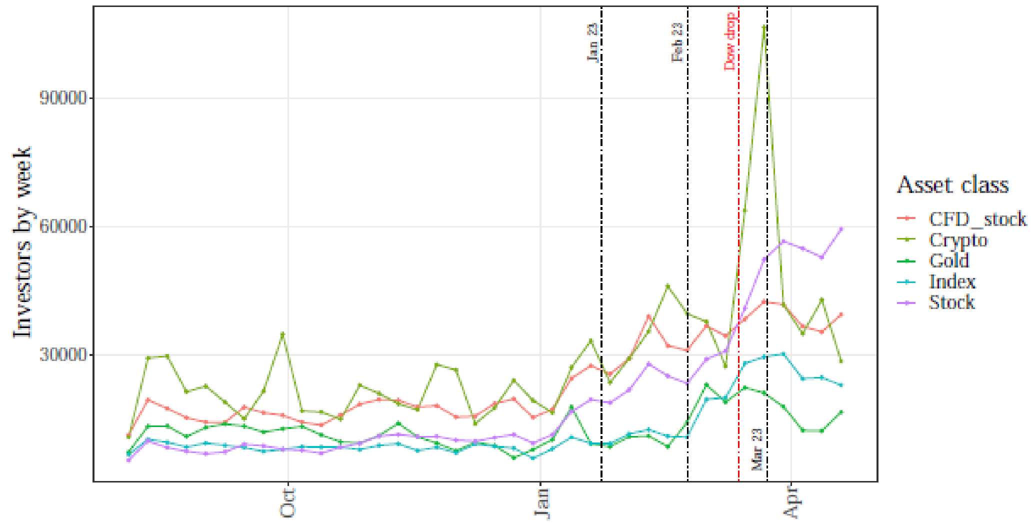

Figure 3. No. of active investors during COVID-19

DISCUSSION & SUGGESTIONS

For every service industry it is vital to note the cultural impact in today's global marketplace. Consequently, the cultural differences among international customer must be distinguished for removing any potential errors on the decision-making process which is most applicable to investment decisions.

It can be posited from the literature review that the easterners are more conventional and behave collectivistically than westerners (Williams, G.,2007) In addition, easterners are the one who react impulsively than westerners for the reason that of their emotional background instead of logic. This in sequence leads to huge volatility specifically during the crisis periods. Thus, making the market less volatile by making them behave rationally will be the toughest job, which can be built only by analyzing their psychological aspects towards finance according to their cultural differences.

This paper gives a solid perspective to both the academicians and the practitioners that one must take into consideration of cultural aspects when analyzing the Investment decissions. And for the entrepreneurs who are planning to start a business, the paper recommends to scrutinize the impact of cultural aspects with reference to the region they are forecasting to operate beforehand; so as to deliver products/services effectively. This can be identified with help of some major cultural determinants and the respective factors influenced by the behaviors of investors (Daniela Beckmann et al., 2008) as shown below in figure 4 as,

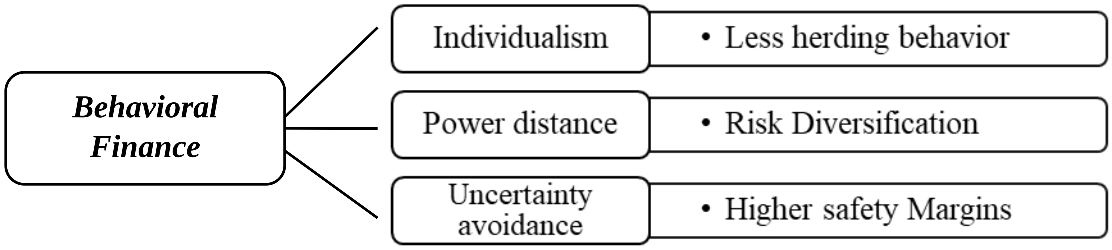

Figure 4. Cultural determinants influencing behavioral finance

While doing business with different country people to make it efficient, one has to be careful in satisfying their expectations considering their culture towards the financial behavior since finance is the major source of business .(Raj Aggarwal et al., 2014)

So, the major recommendation for the financial institutions is to explore investor's behavior along with his/her cultural exposure on their financial decisions. This may enable investors to think rationally via educating them rather than acting as per the market behavior by these institution.

CONCLUSION

This paper gives a brief insight, how investment decisions has been influenced by various cultural dimensions. Therefore, for the financial institutions the behavioral finance is the major tool to deal with different individual investors which may helpthem to be more rational keeping aside the cultural differences whatsoever.

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