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Online social networking increases financial risk-taking

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ABSTRACT

The popularity of online social networking sites such as Facebook, LinkedIn, and Twitter has engendered discussion regarding their consequences for users, whether they be positive or negative. In this research, we draw on the cushion hypothesis from psychology and social capital theory from sociology to posit that using online social networking increases users' financial risk-taking. Three studies show that online social circles such as "Facebook friends" are akin to collectivistic communities by offering users a "cushion" that mitigates financial loss, which increases users' financial risk-taking, consistent with the cushion hypothesis. This greater financial risk-taking arises primarily when users perceive their online social circles as able or willing to provide financial support or of high quality, consistent with social capital theory. Thus, we link online social networking with financial risk-taking, with important welfare implications for today's online users.

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1. Introduction

Online social networking sites such as Facebook, LinkedIn, and Twitter have grown exponentially in popularity over the past decade. Facebook by far remains the largest social network. It started in 2002 at Harvard University, but today, it has amassed more than 1.39 billion members worldwide, of whom 890 million are daily active users and 745 million members are on its mobile platform every day (Facebook, 2015). These large numbers also appear in other social networking sites. LinkedIn, an online social network for professionals, has more than 332 million members in over 200 countries and territories (Bullas, 2014). Meanwhile, on Twitter, there is an average of 6000 tweets per minute by its 284 active monthly users (Smith, 2015a). This growth in the popularity of online social networking has meant a shift in how people spend their time on the Internet. Facebook users spend, on average, 21 min per day on the online social networking site (Smith, 2015b).

What are the consequences of online social networking for users? Prior research has documented effects both positive and negative for personal as well as business use. In personal and social settings, using online social networking sites enhance self-esteem and positive well-being by making users feel part of and included by a community (Back et al., 2010; Ellison, Steinfeld, & Lampe, 2007; Gonzales & Hancock, 2011; Valkenburg, Peter, & Schouten, 2006). Yet, this greater self-esteem also reduce self-control, at least temporarily, such as by increasing unhealthy food indulgences and reducing self-regulation ability (Wilcox & Stephen, 2013). Another negative consequence of online social networking sites is that they are often arenas where sexual harassment and bullying occur, making younger users especially vulnerable (Livingstone & Brake, 2010; Sengupta & Chaudhuri, 2011; Ybarra & Mitchell, 2008). Finally, there are sociological or ethical arguments that online social networking sites dilute the meaning of true friendships by blurring the line between close friends and mere acquaintances (Deresiewicz, 2009).

In business and professional settings, online social networking can also either be advantageous or not. For example, using office-based online social networking sites or intranets improve workplace productivity, increase employee satisfaction, enhance communication and collaboration among employees, and facilitate knowledge transfer to make organizations more agile (Bennett, Owers, Pitt, & Tucker, 2010). Use of online social networking or social media sites also help both for-profit and not-for-profit organization promote brands and products, especially when planning is carefully orchestrated (Park, Rodgers, & Stemmle, 2011; Waters, Burnett, Lamm, & Lucas, 2009). However, the easy exchange of knowledge and communication via online channels within organizations also have adverse outcomes. For example, it spreads hate and increases employee dissatisfaction (Bennett et al., 2010). At the extreme, it can lead to the proliferation of violent acts by criminal individuals or organizations (Shephard, 2013). These personal and professional consequences of online social networking remain in discussion – and the conclusion contentious.

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In this research, we add to the discussion regarding the consequences of online social networking. In particular, we propose that using online social networking sites increases users' financial risk-taking. We draw on the cushion hypothesis and social capital theory to make our prediction (Hsee & Weber, 1999; Weber & Hsee, 1998). Briefly, collectivistic societies such as East Asian cultures offer a "cushion" against financial loss, which increases members' propensity to take financial risks. We predict that the benefit of a financial cushion should also occur for online social circles, such as via Facebook, because they also are collectivistic in their very nature. The result is that online social circles act as a cushion that mitigates financial losses, thereby increasing users' willingness to bear greater financial risks. Three studies support our hypothesis. They also indicate that the greater financial risk-taking arises primarily when users perceive their online social circles as able or willing to provide financial support or to be of high quality. Thus, we examine the link between online social networking and financial risk-taking, with important implications for individual well-being in today's digital age.

1.1. The cushion hypothesis

Common intuition says that Americans are adventurous and so they are more financially risk-taking than East Asians who are prudent and pragmatic, even in money matters. Hsee and Weber (1999) tested this intuition when they recruited American and Chinese students to predict which members of which culture would take more risks in various domains. Supporting the popular intuition, the authors found that both Americans and Chinese students *predict* Americans to take more financial risks than the Chinese.

However, Hsee and Weber (1999) found in reality that it was Chinese students who consistently choose riskier investments than American ones in reality. Critically, this propensity for the Chinese to be more risk-taking only occurs in financial but not academic or medical domains. For example, when writing a term paper on a controversial topic or when choosing to take experimental drug, both Chinese and American students are similarly likely to take risks. Thus, the authors provided evidence against the popular adage that Americans are more financially risk-taking than Chinese. Other findings supporting this conclusion are that Chinese proverbs provide more financially risk-taking advice than American ones (Weber, Hsee, & Sokolowska, 1998), and that the Chinese are less co-operative (i.e., more risk-taking) in mixed-motive negotiation contexts (Chen & Li, 2005).

Hsee and Weber (1999); Weber & Hsee, 1998) came up with the *cushion hypothesis* to explain their findings. This hypothesis is based on the realization that the cultures of Asia, Africa, and parts of Europe and Latin America tend to be collectivistic, while those of Western Europe and North America tend to be individualistic (Nelson & Fivush, 2004; Triandis, 1993). Indeed, research on the differences between collectivistic and individualistic societies often use Asian Americans and compare them to Caucasians or Americans. The difference between collectivism and individualism is that collectivistic communities value cohesion, cooperation, solidarity, and conformity, and members of these societies make more references to others, emphasize group goals, and follow the expectations and regulations of the group, in contrast to individualistic communities.

How might the fact that East Asians are collectivistic explain why they take greater financial risks? To Hsee and Weber, collectivistic societies such as Chinese and other East Asian cultures offer a "cushion" against the adverse outcomes of financial loss that members of such societies could experience. Members of collectivistic societies can ask for and receive financial help should they be in need. Here, "help" does not refer to verbal or emotional consolation after suffering a loss since anyone can offer such support. Rather, it refers specifically to financial and material assistance that only family and friends in collectivistic societies provide. Thus, collectivistic societies offer a cushion only in the event of financial, but not other types of loss. Indeed, if a student chooses a risky essay topic or if she is sick from an experimental al drug, members of collectivistic societies are unable to mitigate the low grade or major side effects, at least not more so than individuals outside society. However, the same members in collectivistic societies *can* provide financial help such as loans and temporary housing after a monetary loss. The result is that individuals in collectivistic societies perceive fewer harms from taking financial risks compared to those in individualistic ones.

The cushion hypothesis implicitly draws on social capital theory to make its predictions. To sociologists, *social capital* refers to the sum of resources that people accumulate through relationships (Bourdieu & Wacquant, 1992; Coleman, 1988). This accumulation increases life satisfaction, lowers crime rate, and even leads to efficient financial markets (Adler & Kwon, 2002; Bargh & McKenna, 2004; Helliwell & Putnam, 2004). However, when social capital declines, there is distance and mistrust between members, greater social disorder, and less civic participation. Social capital takes many forms, such as useful information, emotional support, and – relevant to the cushion hypothesis and our present focus – financial and material assistance (Paxton, 1999). Yet, as Hsee and Weber noted, emotional and other non-financial support does not mean that collectivistic societies can minimize emotional, social, or health *risks* to which individuals might be exposed. Rather, the distinguishing benefit of collectivistic societies is in terms of the financial and material assistance that other community members can provide, which increases individuals' willingness to take greater financial risks.

1.2. Online social circles

People use online social networking such as Facebook for various reasons such as fulfilment of social, affiliation, and self-esteem needs by connecting them to others with similar interests and common goals, as well as their family and friends (Back et al., 2010; Ellison, Heino, & Gibbs, 2006; Horrigan, 2002). In doing so, online social circles help people accrue social capital that can either supplement or even replace offline social networks. The latter can be especially true for online friends who people may not see often in real-life or when the online interactions replace in-person ones (Wellman, Haase, Witte, & Hampton, 2001). For example, Facebook users use distribution lists, share photos, and search for similar interests – all of which help build relationships with other individuals who may not be present in the "real world". Thus, online social circles also offer social capital built online from which people can draw resources when necessary (Resnick, 2002; Wellman et al., 2001). Furthermore, because of low-cost technology and computer-mediated communication, online social networking sites reduce relationship barriers and encourage self-disclosure that otherwise would be difficult in-person (Tidwell & Walther, 2002). Since online social networking sites are free and easy-to-use, the accrual of social capital via online channels is also quicker than offline ones that often take more time to build (Donath & Boyd, 2004).

Building on this discussion, we hypothesize that online social circles from online social networking sites also offer the benefit of financial cushioning as with culturally-based collectivistic societies. Indeed, the interdependent nature, interaction, and affiliation with one's online social circles are akin to those in collectivistic communities, such as those in East Asian communities. Thus, online social circles should also mitigate financial loss, which increases users of such sites' willingness to bear greater financial risks. For example, if a Facebook user is in financial distress, not only can she ask her online friends for financial help, but the low

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