

Does culture influence asset managers' views and behavior?

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Abstract

This research enters new ground by presenting comparative survey evidence on asset managers' views and behavior in the United States, Germany, Japan and Thailand. Relying on Hofstede's four cultural dimensions, we find that cultural differences are most helpful in understanding country differences which cannot be explained by pure economic reasoning. In short, controlling for various determinants, the dimension of more Individualism predicts less herding behavior, more Power Distance leads to older and comparatively less experienced managers in the upper hierarchy, Masculinity brings men into top positions and to higher volumes of assets under personal responsibility, and Uncertainty Avoidance is related to higher safety margins against the tracking error allowed and relatively more research effort. These consequences, i.e. the culturally different importance of herding, age, experience, gender, tracking error and research effort, clearly affect investment behavior, although in a complex way.

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1. Introduction

International financial markets have been the outriders of globalization during the last decades. Asset managers who manage huge volumes, typically billions of Dollars, for banks, insurance companies or mutual funds invest their entrusted assets globally as a matter of course. Moreover, their decisions are based on theories about capital markets and optimal portfolio allocation that are globally uniform. Thus, we would expect asset managers' behavior to be influenced by incentives resulting from their age, experience, education, and so on, and from idiosyncratic institutional details, but not really by cultural aspects. With the help of a questionnaire survey, we analyze asset managers' views and behavior in the market by considering respondents' attributes such as gender, experience, position or their firm's size as well as selected fund characteristics. At the heart of this research is the question of whether cultural differences, as predicted by cultural theory, have any systematic influence on the actors of the international asset management industry.

We do indeed find asset management to be a global business that shows some common global aspects such as strong reliance on fundamental data and related strategies. However, we also find country-specific differences that can hardly be explained by capital market theory but that are consistent with a cultural influence on views and behavior instead.

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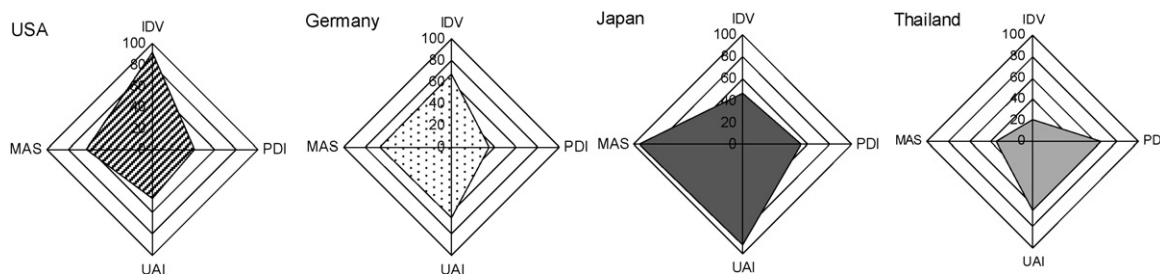


Fig. 1. Country scores in cultural dimensions according to Hofstede. (For the United States, Germany, Japan and Thailand, scores in Hofstede's following four dimensions are shown here: Individualism (IDV), Power Distance (PDI), Masculinity (MAS) and Uncertainty Avoidance (UAI)).

Defining “culture” has been of scientific interest for centuries (for a critical review, see [Kroeber and Kluckhohn, 1952](#)). We rely on the comprehensive, empirically based understanding by [Hofstede \(1980\)](#). He defines culture as collective programming of the mind that is primarily manifested in values and norms, but also more superficially visible in rituals and symbols. This so-called mental programming (also referred to as “software of the mind”) is stable over time and implies the same person showing consistently similar behavior in similar situations. When talking about culture, Hofstede refers to national culture.

There have been several research streams in cultural theory in the past decades, and cross-cultural research as a multidisciplinary approach ranges from cognitive and social psychology, sociology, anthropology and history, up to management science and economics. This broad and vivid field of research encompasses a variety of approaches and frameworks for cross-cultural analyses.¹

In order to examine and compare the viewpoints and behavior of asset managers from four countries, we refer to [Hofstede's \(1980, 2001\)](#) cultural dimension framework and his country scores given as index numbers for each single country.² We account for all four of his original dimensions, namely “Individualism” (IDV), “Power Distance” (PDI), “Masculinity” (MAS), and “Uncertainty Avoidance” (UAI). Further explanations of the single dimensions will be given in Section 4.

Regarding our selection of countries, we consider asset managers from the United States, Germany, Japan, and Thailand. At first glance, one might be tempted to expect a simple Eastern–Western differentiation. However, when taking a closer look at the exact dimension scores given by Hofstede for our four surveyed countries, the differences over all dimensions become clearly evident (see [Fig. 1](#)). According to Hofstede, the United States and Germany are closer to each other than they are to Japan and Thailand. Nevertheless, the latter are far away from being similar. Especially regarding Hofstede's dimension of Masculinity, they deviate significantly. Even without going into detail yet, analyses can be expected to be surely more complex than they might seem at first sight.

Thus far, cross-cultural research papers have mostly focused on one cultural dimension only. Especially the Individualism dimension is much researched. It has been (re-)defined, analyzed in detail, and combined with selected topics,³ both, theoretically and empirically (see [Triadis, 1995](#) or [Oysermann et al., 2002](#) for a broad overview). Among most recent studies [Hwang et al. \(2003\)](#) and [Green et al. \(2005\)](#) provide interesting cross-cultural psychology research input

¹ Approaches to unambiguously distinguish cultural groups from each other could be based on different cultural dimensions as suggested by [Hofstede \(1980, 2001\)](#), [Hall \(1985\)](#), [Hall and Hall \(1990\)](#) or [House et al. \(2004\)](#), on grid/group typologies and cultural prototyping (see, e.g. [Douglas and Wildavsky, 1982](#); [Rayner and Cantor, 1987](#); [Thompson et al., 1990](#), or [Dake, 1991](#)) or on factors such as professional or ideological affiliations that, as the former, are often used for risk-related cultural research (see, e.g. [Rohrmann and Renn, 2000](#); [Sjöberg et al., 2000](#)).

² Hofstede's cultural dimensions are based on a global written survey conducted within the IBM group in the late 1960s and by beginning of the 1970s. Altogether 116,000 questionnaires from more than 70 countries were collected. Though not without pitfalls, this all-time comprehensive data set assures Hofstede's recognition and uniqueness until today (see [Kagitcibasi, 1997](#)).

³ [Shafiro et al. \(2003\)](#) or, for example, [Nesdale and Naito \(2005\)](#) combine their analysis of Individualism with gender aspects, [Kemmelmeyer et al. \(2003\)](#) take authoritarianism (i.e. the individual degree of compliance with social norms and (political) authority, into additional account). [Shuper et al. \(2004\)](#) do not only consider Hofstede's dimension of Individualism but also include [Weinstein's \(1980\)](#) measure of unrealistic optimism as well as Hofstede's dimension of Uncertainty Avoidance.

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