



**AUCKLAND CENTRE FOR
FINANCIAL RESEARCH**

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Culture and Finance

How Culture affects financial decision making

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What is (national) culture?

“the collective programming of the mind distinguishing the members of one group or category of people from others”, Hofstede (2001, p.9)

“those customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation”, Guiso et al. (2006, p.23)

Cultural Values and their Importance

- Hofstede (1980) identifies 4 key dimensions along which cultures differ

Culture Dimension	New Zealand	Highest Score
Power Distance	22	Malaysia (104)
Individualism	79	United States (92)
Masculinity	58	Japan (95)
Uncertainty Avoidance	49	Greece (112)

- Over 180 empirical studies have been published in top-tier journals demonstrating the importance of culture for economic decision making (especially for individualism and uncertainty avoidance)



The importance of culture for finance

- Culture has been shown to affect financial decision making in several ways
 - ✓ Culture affects financial decisions and outcomes at the national level
 - ✓ Cultural differences between countries affect cross-border flow
 - ✓ Cultural diversity affects decisions and outcomes of groups
 - ✓ Cultural heritage/ancestry affects decisions and outcomes of individuals

The importance of culture for finance

- NZ Mutual Fund allocations: Foreign asset allocations and cultural distance have a correlation of -0.56 (Beugelsdijk and Frijns, 2010)

- NZ Corporate Board (2014):

Nationality	Percentage
New Zealand	68.452%
Australia	21.280%
United Kingdom	4.911%
Canada	1.042%
United States	1.042%
Malaysia	0.893%
Singapore	0.446%
China	0.446%
Germany	0.298%
South Africa	0.298%

Country of Ancestry	Percentage
United Kingdom	53.22%
Ireland	15.54%
Canada	7.38%
Germany	6.75%
Russia	3.61%
Italy	2.67%
China	2.67%
Sweden	1.10%
Mexico	0.94%
Netherlands	0.78%



Implications of the impact of culture for finance

- Given the pervasive impact that culture has on finance, its impact on various financial aspects needs to be understood
- Cultural differences and cultural diversity are often not easily observed, which means that frictions often remain unresolved
- In a multi-cultural society, like New Zealand, awareness of the effects of culture (its pro's and cons) can enhance financial outcomes