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Cultural differences in approach to risk-taking: the case of

Finnish business ventures in East Asia

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ABSTRACT

International business has grown rapidly since the globalisation and development of new potential evolving markets. Despite of the large amount of studies made about the Eastern business culture by Western companies, many companies are finding it hard to succeed because of not fully understanding the factors originating from cultural diversity. Besides China, also other East Asian and Southeast Asian countries have advanced into biggest markets in the world with significant purchasing power. The aim of the study is to find out how the culture affects corporate risk-taking in Finland and In East-Asia (Individualism vs Collectivism). To find out, survey has been concluded for people who have experience and knowledge from risk management in Finland and in East-Asia. Results revealed that characteristics of individualism such as overconfidence, over optimism and pursuit of self-interests are seen as positively affecting to corporate risk-taking. However people still considered Chinese companies to be more risk seeking than Finnish companies. From this we can see that culture is very wide topic and it is hard to put such a large groups in to one mold. The results are rarely simple and easy to analyse when considering culture as a topic.

This research focuses on the cultural differences and how do they influence risk-taking habits in Finland and in East Asia. The aim of the research is approached with literature dealing with Asian culture and business studies on the business structures and cultures in Asia. Also empirical research is conducted by conducting a survey for Finnish businessmen and/or companies operating in East Asia. Even though we are living in the age of globalization and the managers of companies are sophisticated and well informed, culture has its roots so deep that it still matters and affects our behaviour and decision making.

Keywords: Cultural diversity, International business, East Asia, Finland, risk-taking

INTRODUCTION

The increased possibility for organisations to expand to international markets is because of globalization, which started its growth and gained attention from business minds in 1980s (Dollar 2005). In the 20th century business globalization was considered as development in all commercial operations and expansion over the borders of regions, countries and nations. Even though globalization may have connected the world more than ever, individual countries still have their unique features when it comes to business culture, tradition and behaviour in general, and in business. (Hofstede 1994). Especially between Western and Eastern countries, there are significant differences in the business environment and in the way business is carried out in general.

Asian markets are growing and developing rapidly, for example China's annual GDP growth rate was 6.7% at the end of last year 2017 (TradingEconomics, 2017). Also countries such as Vietnam and Thailand are growing all the time among with the already considerably large markets like Hong Kong, Japan, South Korea and Singapore. Not to forget India, which is the sixth-largest economy by market exchange rates, and is, at US \$9.489 trillion, the third-largest by purchasing power parity (IMF, 2017). Growing markets in Asia are considered very potential marketplaces for foreign businesses and this potential has been recognized by Western businesses more and more in the recent years (HBR, 2006).

To success in Asian markets the Western companies have to take into account the very different cultural backgrounds and business behaviour and it needs to be examined closely. The need of an inductive study has increased in the recent years as international business has increased in the Western world and more companies are looking for business opportunities from the rapidly growing Asian markets. However, even many major companies such as Home Depot, eBay and even Google have failed when entering Asian markets without doing a proper research and because of the lack of adapting the company's business model and ethics into Asian culture and business environment (CNBC, 2013).

Studying cultures effect on risk-taking behaviour is important to understand the effects of national cultures likelihood to create risk-seeking firms. Understanding these aspects helps in the making of efficient national policies and improving corporate governance to match with the cultural tendencies of risk-taking. Knowledge of cultures impact on corporate risk-taking can help policy-makers to adjust governmental policies for firms with different kind of risk hungers and this way create incentives for entrepreneurship and innovations. There are already earlier studies done dealing with effect of cultural differencies to corporate risk-taking, for instance Kanagaretnam et al. (2011) show that high-risk activities by banks are more likely to be expected in cultures with low uncertainty avoidance and high individualism. They show that cultural differences between countries have an influence on the level of bank risk-taking and the ability to explain bank financial difficulties throughout the recent financial crisis in 2008. Also, Griffin et al. (2012) show that uncertainty avoidance is negatively and individualism is positively related with corporate decision riskiness in the manufacturing sector.

Mainly the studies have shown that individualism has a positive effect and significant relationship with corporate risk-taking, whereas uncertainty avoidance and harmony have a negative effect and significant relationship with corporate risk-taking. According to Schermerhorn & Bond (1997) the individualism/collectivism and power-distance dimensions are the most relevant because of the nature of the business. The aim of the study is to explore the effect of individualism and collectivism on corporate risk-taking by comparing the business habits and decision making processes in Finland (high individualism) and East Asia (high collectivism). Survey is conducted and shared to managers, businessmen and investors who have risk management experience and knowledge from Finland and East-Asia. Also earlier studies considering cultures effect on corporate risk-taking is reviewed. The results showed that people considered individualistic characteristics as positive factor to corporate risk-taking. Also “cushion theory” was considered to have positive effect on corporate risk-taking. Overall the results indicated that people considered Chinese companies to be more risk seeking than Finnish companies.

1. Background

Culture has several senses in the modern world. Culture can be seen as forms of literature, music or art. However, usually culture is identified as traditions, rules and habits in certain area, region or nation. These traditions, rules and habits form connections among people and that way form a society and hold it together (Baldock, 2010). According to Samovar and Porter (1994), culture refers to the cumulative deposit of knowledge, experience, beliefs, values, attitudes, meanings, hierarchies, religion, notions of time, roles, spatial relations, concepts of the universe, and material objects and possessions acquired by a group of people in the course of generations through individual and group striving. Therefore it is possible to argue that cultural awareness has a big role especially in international business, as business fundamentally is a multifaceted interaction and communication among different people whose cultural background shapes their worldview, values and behaviour.

Understanding cultural diversity may be challenging because the different structures of different cultures can be hard to identify, but the main difficulty originates from cultures' on-going development. The rapid globalization has affected the evolvement of cultures. This has ultimately led to acculturation, which means the cultures tendency to adjust to other cultures, and the change in the people who develop the culture (Dollar, 2005). Therefore when considering the cultural change and the international business evolvement towards global business culture as the different cultures are melting together and the distances between cultures and business behaviour is decreasing (Czinkota et al, 2011), it can be argued that the studies dealing with differences in culture and business may be out-of-date and irrelevant at some point in the future. Instead of specifying the quickly changing features of different cultures, the future studies should concentrate on predicting the results of globalization and acculturation and their effect on the international business culture, by analysing the direction and the pace of the cultural changes. This way it could be predicted how the global business culture will look like in the future.

Even though cultural difference is pointed out to have negative consequences, for example not fully understanding other culture and in result of that failing in a foreign marketplace, there is also a bright side in the cultural differences. Cultural differences can be also used as competences. For instance, according to Peter Karlsson, Managing Director of Profits and People Pty. Ltd., scandinavian products, business principles and -ethics are becoming more popular among Australian and Asian people, and this way the cultural differences can become competency in the foreign market. People are often curious of foreign nations products and may consider them exotic and desireable, which can be used as an advantage in international business.

To succeed in Asia companies will have to take multiple thing into account and carefully plan their entering before actually executing the expansion or starting business in Asia. The decision to enter a new market is one of the most important, if not the most difficult choices any company will face. Reducing profits and intense competition in developed markets has driven companies to seek profits in emerging markets for potential business growth. However, investing in these developing economies can be a gamble because of various risks involved (Bernando, J., 2017)

Many companies have based their research assuming that Asia is one uniform and homogenous market, which it definitely is not. Asian countries differ from each other greatly in geopolitical, social and economical conditions. Even with the largest countries in Asia, China and India, there are big disparities in economic growth even withing the borders of these huge nations. There are also notable variations among countries in terms of population, per capita GDP, average income levels, consumer spending habits, education levels, literacy rates, and lifestyles. The first step to any market entry strategy is to identify the different sub-markets, know where its target customers are, which cities to focus on, and where to base its operations (MBrain, 2015). The hard part is that it is not always easy to understand where the opportunities lie within Asia. It's crucial to carefully map out the location of customers and suppliers. Succesful market entry depends on many factors, such as industry trends, size of the market, ground sales and technical support expected by customers, and required distribution channels and logistics to reach clients. It is also important for Western businesses to understand the importance of relationships in Asian culture. In Western countries relationships can be established by conducting a meeting or even via phone calls, whilst in Asia an introduction by mutual friends, colleagues or associates is more vital in creating strong relationships.

Also investing in market research is important to learn about the local competition. The fact that one business model has been profitable in somewhere else doesn't necessarily mean it will be profitable in Asia, because of the different cultural aspects, consumer behaviour, preferences etc. Understanding the legal framework in Asian countries is important to avoid any legal problems when entering market. For example China severely restricts foreign companies' involvement in the field of petrochemicals, energy and telecommunications sectors, Thailand requires that companies have 51 percent local ownership (Mendl, W., 2001) and so on. Government regulations can cause significant delays and escalate costs of market entry. There are government regulatory organisations in Asia that are not as transparent as their Western equivalents making it hard to understand and operate by the rules. Often hiring local legal consultants may be necessary to help understanding these complicated laws and regulations. (Vincent, A., 2010)

When entering Asian markets flexibility is a key to success. Company has to be ready to make compromises and learn to experiment fast, regularly, and economically. Not only with products but also with business models and strategies. Adapting in the new market is important. Each market presents different challenges and opportunities. It is vital to be adaptable and flexible when venturing into the new markets. (MBrain, 2015)

1.1. Hofstede's dimension theory

Hofstede's dimension theory defines the key differences of different national cultures. According to the dimension theory, national cultures are the sum of six different aspects which are cultures' Power Distance Index (PDI), Individualism (IDV), Masculinity (MAS), Uncertainty avoidance index (UAI), Long-term orientation (LTO) and Indulgence's ratio to restraint (IVR) (Hofstede, 1993; Hofstede 1994; Hofstede et al, 2010). Hofstede's approach is commonly used to assess different cultures and it can provide a clear picture of specific cultures features. Furthermore it can be applied in business in some extent to understand the foreign culture's features better and that way shaping the business' principles and –ethics to line with the local ones.

Power distance (PDI) is the level to which the inferior ranking individuals of a society "accept and expect that power is distributed unequally" The PDI also characterises society's level of inequality that is defined from below rather than from above. As Hofstede stressed, there is no absolute value and PDI is useful only as a method to compare countries. (Velo 2011, p. 26).

Individualism versus collectivism (IDV), individualism can be defined as a preference for a social framework in which individuals are expected to take care of only themselves and their immediate families. Collectivism on the other hand can be defined as a preference for a strongly-knit framework in society in which individuals can anticipate their relatives or members of a particular in-group to take care and look after them in exchange for unquestioning loyalty, which is very important value in collectivist cultures. Individualism versus collectivism can be described very simplifiedly with "I" and "We" (Hofstede 2010).

The Masculinity (MAS) side of this dimension symbolises a preference in society for achievement, heroism, assertiveness, and material rewards for success. Society in general is more competitive. Its opposite, Femininity, stands for a preference for co-operation, modesty, caring for the weak and quality of life. Feminine society as a whole is more harmony-oriented (Hofstede 2010). In the business Masculinity versus Femininity is sometimes also related to as "tough versus tender" cultures.

The Uncertainty Avoidance (UAI) aspect expresses the level to which the members of a society feel uncomfortable with uncertain and unclear situations. Countries presenting high UAI maintain inflexible codes of beliefs and behaviour, and are intolerant of uncommon behaviour and ideas. Low UAI societies on the other hand maintain a more relaxed attitude in which practice counts more than principles and people are more optimistic considering unfamiliar or unknown scenarios. (Hofsted, 2010; Mihet, 2012)

Those with a culture which scores high in Long-term orientation (LTO), take a more practical approach: they encourage frugality and efforts to have more modern education as a way to prepare for the future. Every culture has to preserve some links with its own past while dealing with the challenges of the present time and the future. Societies rank these two existential goals inversely. Societies who score low on LTO, prefer to maintain honourable traditions and norms while viewing social change with doubt (Hofstede, 2010).

Indulgence versus Restraint (IVR), Indulgence stands for a society that allows relatively free gratification of basic and natural human drives related to enjoying life in general and having fun. Restraint stands for a society that suppresses gratification of needs and regulates it by means of strict social norms.

Collectivism and high power distance are common features of Asian countries, see *Table 1*. These two features of culture are the most relevant when considering the business cultures in Asia and are in the table instead of all six features of culture. According to Schermerhorn & Bond (1997) power distance and collectivism-individualism are the most relevant because of the nature of business.

Table 1. Cultural Dimensions of Asian & Western countries

	Individualism	Power-Distance
<i>Hong Kong</i>	25	68
<i>China</i>	20	80
<i>Japan</i>	46	54
<i>South Korea</i>	18	60
<i>Malaysia</i>	26	104

<i>Philippines</i>	32	94
<i>Singapore</i>	20	74
<i>USA</i>	91	40
<i>Finland</i>	63	33
<i>Germany</i>	67	35
<i>Denmark</i>	74	18

Source: *clearlycultural.com* (Hofstede, 1984)

From the *Table 1* we can see that on the scale of Hofstede all Asian countries have lower score on Individualism and higher score on Power distance (PDI), where Western countries have considerably higher score on Individualism and lower score on PDI. What we can clearly see that Asian countries are more collectivism oriented countries and that Western countries value individualism over collectivism. Also the high PDI score in Asian countries means that people accept that they belong to “certain hierarchy” and know their place in it, whereas Western countries low Power distance (PDI) score indicates that individuals tend to try to distribute the power equally and people want justifications for inequalities of power among people.

1.2. Asian business culture

Collectivist countries have a tendency to have a moral viewpoint when it comes to relations between employers and employees, which explains business relations being considered almost as family where employees are viewed as part of the group instead of individuals (Hofstede, 1984; Hofstede, 1994). Relations and connections play important part in Asian business culture. People like friends, family and old associates can often get better business deals, benefits, and are generally valued more over strangers (Hofstede, 1984). Trust is gained by investing time and effort into personal and business relationships and building these relationships with people in collectivist cultures has real benefits.

The most important of the personal relationships in collectivist cultures is always family. Family is considered to be the foundation and behind every individual there is a family behind. Unlike in Western countries hiring family members may be frowned upon just like using connections and relations for getting a job. In collectivist Asian cultures this aspect is upside down, people cherish connections and relationships because they may be the key for getting the job and hiring family members and relatives is seen as desirable because it results in combining the employee and family loyalty, which is very important in many collectivist cultures (Hofstede, 1984; Whitley, 1992)

In Asian countries saving face is very central factor, this means that people often detain the truth or even lie to prevent themselves to be seen in a negative light. The fact that Chinese have word for losing face, but not for gaining face is a powerful reminder that losing face has far more serious consequences for one's sense of self-esteem or decency than gaining face. In Chinese the wording "lose face" basically means the failure of maintaining the dignity, honor or the certain level of life expected from an individual. To "save face" on the other hand means the action of avoiding loss or damage from happening in the first place. (Carr, 1993; Hu 1944) The loss of face of an individual doesn't only have negative consequences on themselves, but potentially on their entire family as well.

As stated earlier, the importance of family and loyalty can be emphasized. It can be assumed that this will increase the role of commitment in Asian business cultures because of the business is taken personally and possible failings might have effects on the highly valued family reputation (Edmundson, 2007). Also the concept of time in the Western business cultures and Asian business cultures have differences. Western companies are considered to be more short-term oriented with strict deadlines and emphasized importance of efficiency in time management, whilst in Asian business culture the circular concept of time and process focus instead of deadlines is stressed, making it more long-term orientated. The long term thinking is also relevant when considering the business relationships. Collectivist countries value a deal not only by the financial pay off, but also by the relational gains. They invest in relations by behaving honestly and by trusting their partners. They have no respect for others that put their relations at stake for some short term profit. If they turn out to be betrayed by a business partner they will not easily forgive the deceiver. (Hofstede et al, 2008)

Harmony among people is also important in Asian cultures. People think they are part of bigger group but it is acknowledged that the group contains various levels in its hierarchy. Commitment,

dedication and loyalty are valued because as they benefit the group. Harmony is valued to extents that behaviour where people rather lie than speak the truth if the truth might result in loss of face for themselves or to others is common (Hofstede, 1984)

2. National culture and risk-taking

Griffin et al (2009) have studied, does country's national culture affect dealing with corporate risk-taking. Griffin et al (2009) included different 35 countries and they used three different dimensions of culture which were based on Schwartz's (1994, 1999, 2004) studies about harmony in culture and Hofstede's (1980, 2001) studies dealing with uncertainty avoidance and individualism. To measure the effect on risk-taking they looked into standard deviation of operating income among other things. Griffin et al (2009) came to a conclusion that above-mentioned cultural dimensions have both direct as well as indirect impacts on risk-taking. From the cultural dimensions harmony and uncertainty avoidance had a decreasing effect on corporate risk-taking and individualism had an increasing effect on corporate risk-taking.

Griffin et al (2009) have studied the relationship between effect of national culture and corporate risk-taking and in their study they assume that national culture affects the risk-taking of managers working in businesses. On top of this they naturally also assume that the companies' attitude towards risk-taking is not on the same level in every country. Griffin et al (2009) came to a conclusion, where they suggest that national culture has a significant effect on companies' attitude towards risk-taking. The dimensions that were measuring national culture in the research were Hofstede's harmony versus authority, individualism versus collectivism and uncertainty avoidance. According to Griffin et al (2009) studies individualism had an increasing effect on firm risk-taking and harmony and uncertainty avoidance had a decreasing effect on firm risk-taking.

There are many earlier studies focusing on cultures effect on corporate risk-taking and majority of them have suggested that individualism has positive effect on corporate risk-taking, however, there is an opposing theory that suggests the contrary. This theory is called “cushion theory”, which will be discussed in more detail later. Shortly put cushion theory suggests that because of collectivism values relationships, people inside in-groups (family, friends, and business relationships) are ready to support others that have suffered some kind of loss due to a risky decision. Yet many studies researching this topic have credible studies that suggest the other way around. Breuer et al. (2011) find that individualism is linked to overconfidence and over optimism and has a significantly positive effect on individual financial risk-taking and the decision to own stocks. Tse et al. (1988) show that home culture has significant effects on the decision-making of managers. Twenty years later, Graham et al. (2010), using survey data in the USA, also show that CEOs are not immune to the effects of culture. They find that CEOs’ decision-making is strongly influenced by cultural values such as uncertainty aversion and individualism.

Uncertainty-avoiding cultures avoid unclear or unknown situations, but ironically might choose risky situations over uncertain ones. The fundamental difference between low UAI and high UAI cultures is that high UAI cultures might take risks, but these risks tend to be limited to known risks, whereas low UAI cultures generally take both known and unknown risks and are more unconcerned of both, known and unknown risks. This could also be expressed as high UAI countries having “a fear of failure,” while low UAI countries have a “hope of success”. Mihet R (2012) suggests that employees in low UAI countries will take more risk because they hope to be successful no matter what, while being less stressed about failing situations and more prepared to change workplace in case of failure, whereas employees in high UAI countries will take less risks because they are scared of the failure and the consequences that would emerge if they failed.

National cultural differences may also indirectly affect corporate risk-taking decisions, through their effects on the institutional, economic, and industrial environments in which a company finds itself. Formal institutions and informal national cultural norms are strongly connected. More precisely, it is possible that formal institutions such as government and public services are even the product of cultural norms because the political and economic rules are all linked to the society's view of how things should work. These institutions, once established, have a tendency to emphasize the societal standards that led to their establishing. Formal institutions such as rule of law, regulatory quality, government effectiveness, control of corruption, investor protection, creditor rights, bankruptcy costs, financial development, market competition, and industry diversification can all be shaped by national cultural values including uncertainty aversion, individualism, power distance, or masculinity. (Mihet, 2012)

2.1. Relationship between Individualism and risk-taking

Individualism describes the relationship between the individual and the greater society. Hofstede defines individualism as “a society in which the ties between individuals are loose. Everyone is expected to look after himself and his immediate family only. Collectivism stands for a society in which people from birth onwards are integrated into strong, cohesive in-groups, which throughout people's lifetime continue to protect them in exchange for unquestioning loyalty (Hofstede 2001).” Developed countries have a tendency to be, on average, more individualistic than developing economies. Whether wealthier countries are more individualistic because there is a lesser amount of need to be dependent on other people, or whether economic development is assisted by individualism (dedicated pursuit of self-interests) are two theories which are worth investigation. Collectivism has many advantages at one stage of economic development, after

which it becomes a burden on economic growth. In an immature economy, collectivism can be beneficial because it provides some kind of informal insurance against hazards and potential risks. However, once a society grows into more economically developed, collectivism can become unfavourable because it can obstruct the functioning of the economy by contributing to corruption and by providing a discouragement to investing and accumulating wealth, both for the reason that one is expected to share with the bigger in-groups and because one can rely on free-riding on others for economic support (Ball 2001).

In many cases individualism (IDV) has been linked in the psychological writings with overconfidence and over optimism. In more individualistic societies, choices are the creation of an individual rather than the group, and these choices are more likely to be driven by overconfidence and over optimism (Chui et al. 2010). Pan and Statman (2009) find that highly overconfident individuals have a habit of being more risk tolerant than less overconfident people, exaggerating their ability to control outcomes and overestimating their knowledge. When individuals are too confident in their abilities, they have a tendency to overestimate the accuracy of their predictions and to be overly secure in their estimates of variables, such as the future return of a stock (Van den Steen 2004; Grinblatt and Keloharju 2009). Individualism, which is connected with overconfidence and over optimism, has a significant positive effect on risk-taking (Mihet R, 2012).

Even though many studies show that individualism affects corporate risk-taking positively, there is also an opposing theory, called “cushion theory” that suggests that collectivism has a positive effect on risk-taking. This “cushion theory” suggests that people are able to take more and bigger risks because of so called “cushion”. In collectivist countries everyone takes responsibility to help out in case of a large and potentially disastrous loss as a product of a risky choice, whereas in individualistic countries, everyone is responsible and will endure the consequences of his own actions. Collectivism therefore acts as a cushion against possible losses. (Hsee & Weber 1999)

According to the study of Mihet (2012) the results indicate that firms take less risk in societies where uncertainty aversion is high, individualism is low, and power distance is high. When multiplying the country’s individualism and GDP per capita and dividing by the sum of GDP per capita of Northern Europe (high individualism) it can be noticed that the scores are considerably higher than similar scores in East Asia (high collectivism).

Table 2. Weighted average of cultural scores and GDP per capita in Northern Europe and Eastern Asia

	GDP per capita, PPP, World Bank	PDI	IDV	MAS	UAI		GDP per capita, PPP, World Bank	PDI	IDV	MAS	UAI
Finland	43365,07	33	63	26	59	China	63741,453	80	20	66	40
Sweden	49507,85	31	71	5	29	Japan	41476,36	54	46	95	92
Norway	59384,81	31	69	8	50	Hong Kong	58651,026	68	25	57	29
Finland		9,398849	17,94326	7,405153	16,804	China		31,11828	7,77957	25,67258	15,55914
Sweden		10,0799	23,08623	1,625791	9,429587	Japan		13,66778	11,64292	24,04517	23,28585
Norway		12,09088	26,91195	3,120226	19,50141	Hong Kong		24,33818	8,947861	20,40112	10,37952
Average		31,57	67,94	12,15	45,74	Average		69,12	28,37	70,12	49,22

Table 3. Difference of Weighted averages between Northern Europe and East Asia.

	PDI	IDV	MAS	UAI
Difference	-54 %	139 %	-83 %	-7 %

Relying on earlier studies that have stated that firms take less risk in societies where uncertainty aversion is high, individualism is low, and power distance is high (Mihet R, 2012), it can be stated that Northern European firms take more corporate risks than East Asian firms if the assumption of “individualism has a positive effect on corporate risk-taking” stands true. According to Li Kai et al. larger firms and firms with higher earnings are associated with lower operating risks and firms with faster sales growth are associated with higher operating risks.

When dividing the monthly bankruptcies by the states (Finland, Sweden, Norway, Japan and Hong Kong) total amount of companies and then calculating the Pearson’s correlation coefficient (PCC) from the product and Hofstede’s individualism score of the specific country the result is -0.7177, which is a moderate negative correlation and it means that there is a tendency for high X variable scores to go with low Y variable scores. In this case X stands for the country’s monthly bankruptcies divided by the total amount of companies in the country and the Y stands for Hofstede’s individualism score of the specific country. To be more accurate, low values of

individualism tend to lead to more bankruptcies in relation to total number of companies in the country. Whether this correlation is linked to risk-taking, cultural differences or governmental regulations and laws cannot be found from these statistics. Mihet R (2012) has found similar correlations between individualism and governmental indicators such as rule of law, control of corruption, regulatory quality, government effectiveness, voice and account, political stability and formal institutional index. Mihet found that in cultures with high individualism it is more likely that these earlier mentioned governmental indicators are better.

Because individualistic countries give emphasis to self-interested competition, free will, and well-recognised individual rights and responsibilities, they also need a rule of law state that provides people with a broad set of rights that protect them (for example; property, contract rights, etc.). In such states the rights are also closely monitored (Licht et al. 2005). Such a rule-of-law state protects the rights of competing parties against opportunistic behaviour and gives everyone a reasonable chance to pursue their desires and goals. Whereas, more collectivist countries may give less importance to monitoring and enforcing laws that are made to protect personal rights and property from violations. Better institutional governance has been shown to encourage higher corporate risk-taking (Houston et al. 2010; Li and Zahra 2012; Laeven and Levine 2009). Therefore, I hypothesize that individualism will positively and indirectly affect risk-taking because of its effects on institutional development.

3. Methodology

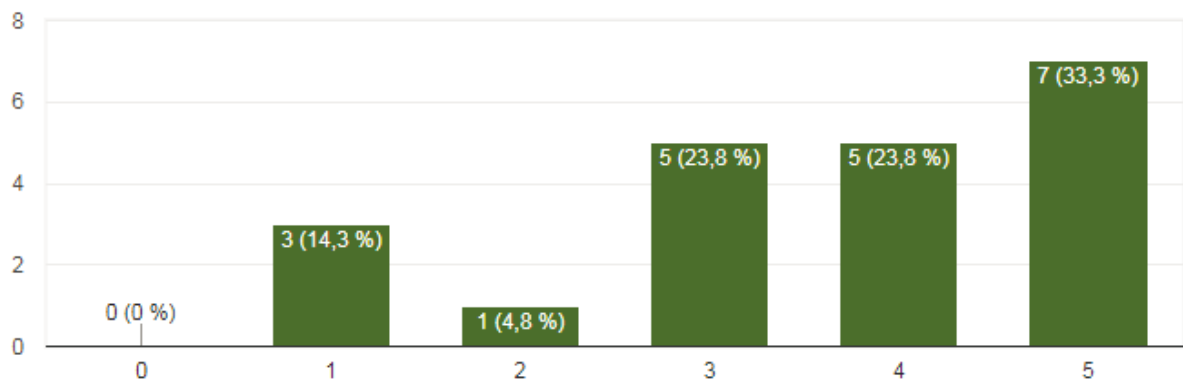
Survey was conducted for Finnish, Chinese and Japanese businessmen, investors and managers who have wide experience from Chinese and Finnish markets and risk-management. The goal of the survey was to find out whether the people who have long experience and knowledge from Finland (Individualism) and China (Collectivism) agree with the findings of earlier studies that show the positive effect of individualism to corporate risk-taking, and do they agree that Finnish companies would take more risks than Chinese because of the individualistic culture. From this survey it is possible to analyse whether the experienced people believe Chinese or Finnish companies to be more risk-averse.

According to Mihet's (2012) study, overoptimism, overconfidence and pursuit of self interests are significantly linked to individualism, whereas harmony and placing the groups benefit before individuals needs are the characteristics of collectivism. In the survey the goal was to find out what cultural aspects do the people who have experience and knowledge from both cultures find more important when considering risk-taking and corporate risk-taking. The survey was sent to over 100 people who have experience in corporate risk-management experience either from Finland, China or in most cases, both. The survey gathered 21 answers, which is quite low amount to make an analysis from, but there could be seen a clear pattern forming.

4. Empirical Analysis

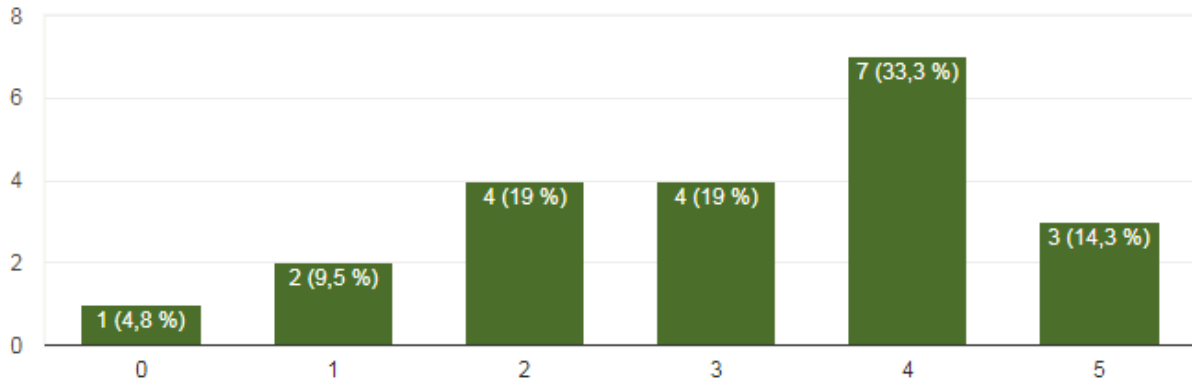
In this topic the questions from the survey are going to be analysed and discussed one by one. Also the names and work experiences of the answerers were asked in the survey.

1. On a scale from 0 to 5, how much do you think overconfidence affects risk-taking, if at all?



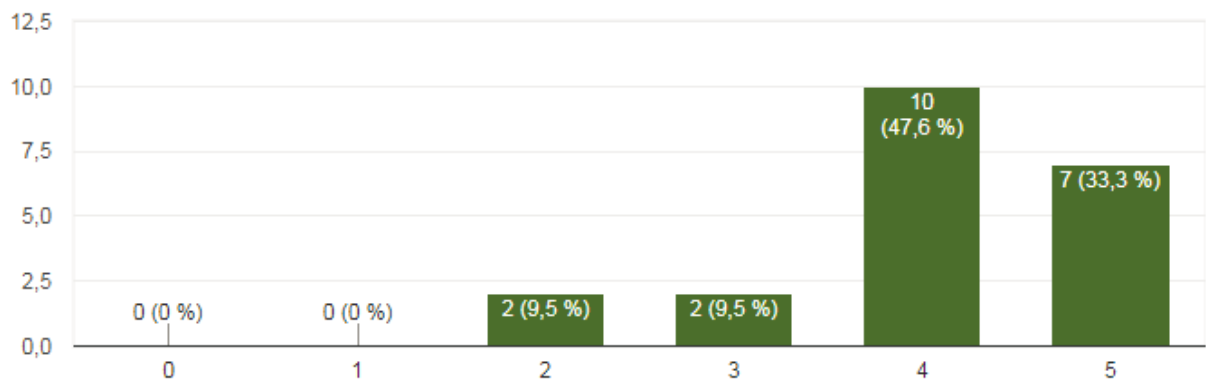
Majority of answerers believed that overconfidence affects risk-taking in general. Overconfidence has been linked to individualism and can lead to overestimating ones abilities, knowledge or outcomes of different situations. No answerers believed that overconfidence doesn't affect risk-taking in general at all and only 4 out of 21 believed that it affects the risk-taking only a little. From this it is possible to conclude that overconfidence positively affects risk-taking. This further verifies the results of earlier studies that have found the positive effect of overconfidence to risk-taking.

2. On a scale from 0 to 5, how much do you think desire to pursue self-interests positively affects risk-taking, if at all?



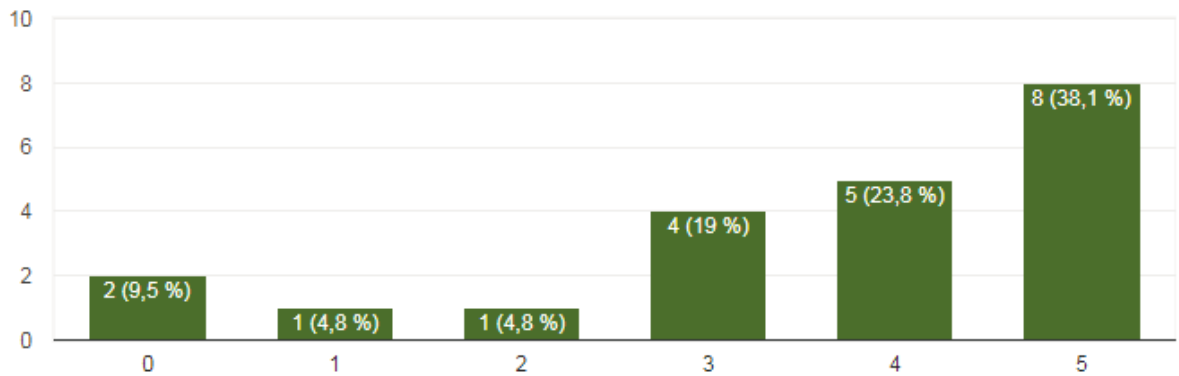
Answers are spread more equally in question 4, but still almost every answerer (20 out of 21) believe that desire to pursue self-interest affects risk-taking positively more or less. Approximately half of the answers believed that desire to pursue self-interest has high or somewhat high impact on risk-taking. Pursue of self-interests is also strongly linked to individualism and this result also verifies the previously done studies about the positive effect of individualism on risk-taking.

3. On a scale from 0 to 5, how much do you think overoptimism positively affects risk-taking if at all?



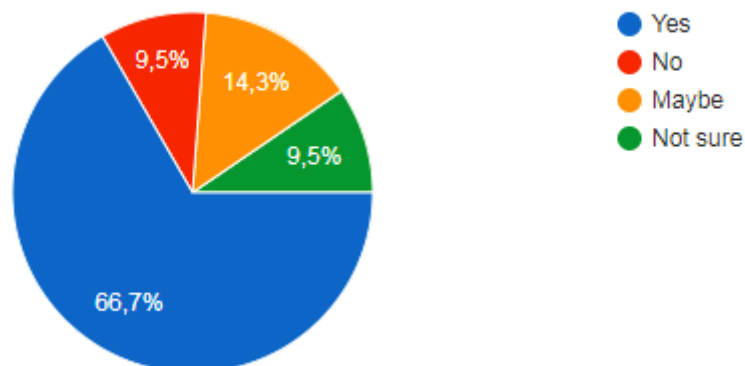
17 out of 21 answerers believe that overoptimism has a high or somewhat high positive impact on risk-taking. No answerer believed that it doesn't have positive impact on risk-taking at all and only 2 out of 21 believed it to have only a little effect on risk-taking. Like overconfidence and pursuit of self-interest, overoptimism is also linked to individualism and this result also further verifies the results of earlier studies from this topic

4. On a scale from 0 to 5, how much do you think having the support from an ingroup in case of loss (as a product of a risky decision) positively affects risk-taking, if at all?



In question 6 the answers are packed on the “higher impact” side of the scale. 17 out of 21 people answered 3, 4 or 5 and believed that having the support from an ingroup in case of a loss has an positive effect on risk-taking. “Cushion theory” discussed earlier, states that collectivist cultures are able to take more and bigger risks due to the so called cushion. This cushion is the ingroup of people that are willing to help in case of need. Majority of the answerers believe that this cushion has a significant positive effect on risk-taking.

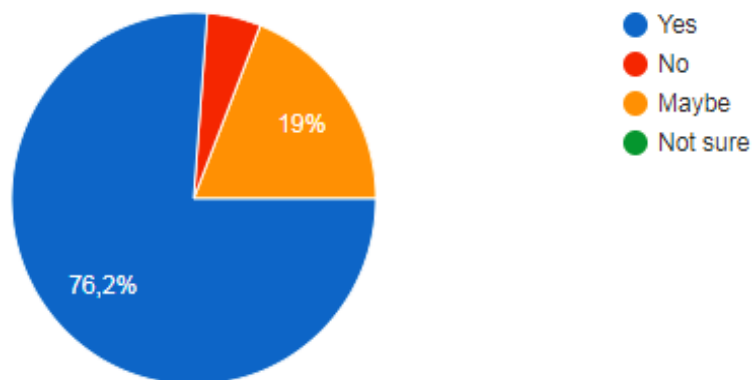
5. Do you believe acknowledging the support of an ingroup in case of loss (as a product of a risky decision) positively affects corporate risk-taking?



Majority of answerers also believe that acknowledging the support of an ingroup in case of loss as a product of a risky decision affects positively to corporate risk-taking. Only tenth believed that the support from ingroups does not affect corporate risk taking positively. And over 20%

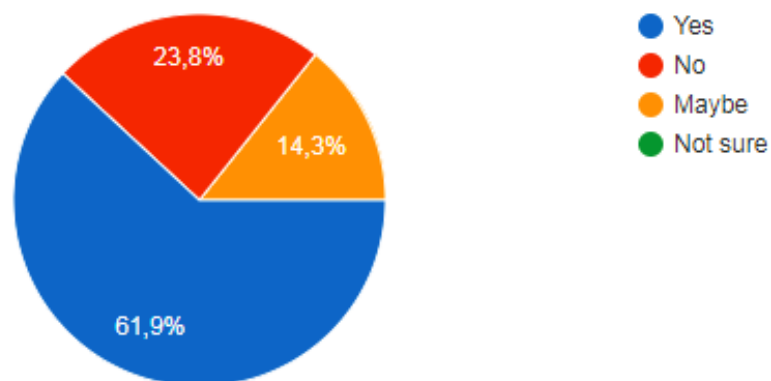
answered that they do not know or that it maybe affects corporate risk-taking. This is understandable because it is often hard to see or find out the motives and encouragements of risk-taking without having a proper discussion about the topic.

6. Do you think overconfidence positively affects corporate risk-taking?

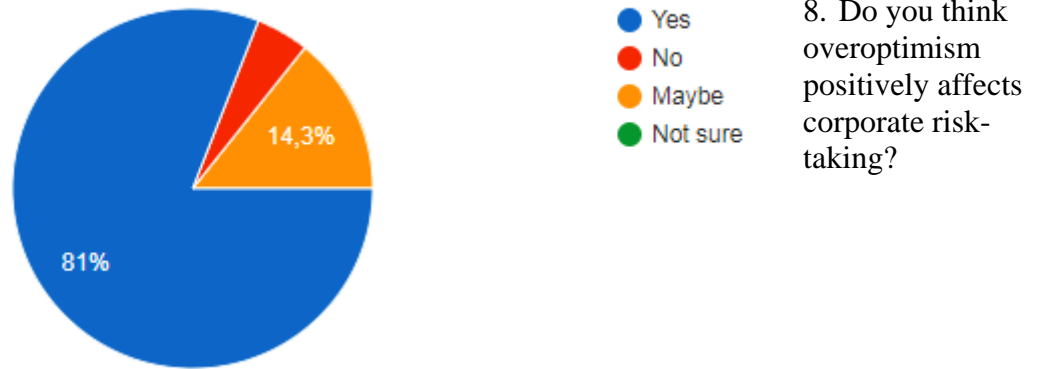


Vast majority of people (76,2%) believed that overconfidence positively affects corporate risk-taking. This result is in line with previous studies finding that individualism has a significant positive effect on corporate risk-taking. (Mihet, 2012)

7. Do you think desire to pursue self-interests positively affects corporate risk-taking?

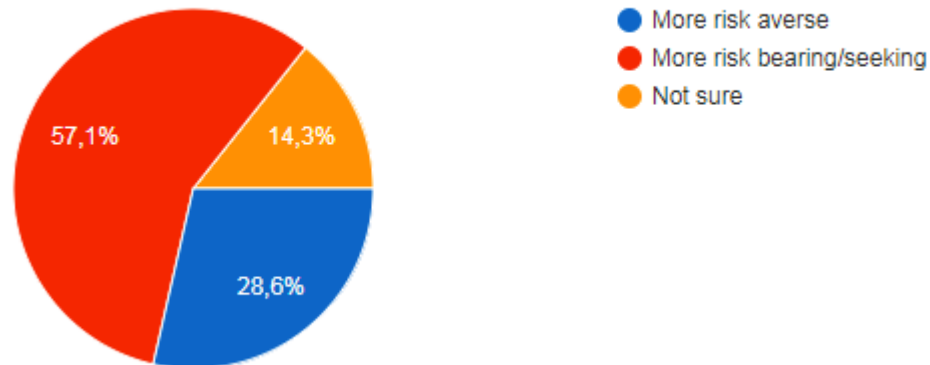


Again, over half of the answerers believe that pursue of self-interests has an positive effect on corporate risk-taking, but also 5 out of 21 believed it doesn't affect corporate risk-taking positively.



17 out of 21 answerers believe that overoptimism positively affects corporate risk-taking. Overoptimism is strongly linked to individualism and this result fortifies earlier studies and literature dealing with effects of culture on risk-taking.

9. On average, do you believe Chinese companies are more risk averse or more risk bearing than Finnish companies?



Interestingly over half of the answerers believed Chinese companies to be more risk seeking than Finnish companies, even though previous literature has done wide research and found out the positive relationship between individualism and corporate risk-taking. Only 6 out of 21 believed that in general, Finnish companies are more risk bearing than Chinese companies.

This could be simply a result of too small amount of answerers and that way biased result. These results does not support the conclusion of previous studies dealing with the cultures effects to corporate risk-taking. However, this study supports the opposing “cushion theory” from Mihets (2012) study. Tommi Vilenius, Senior manager in Murata Chinese Investment, mentioned that in Chinese risk management and risk-taking the private sector collateral entrepreneurship clearly increases the will to take risks until a certain limit. Likewise the fact that in China, having the acces to financing with low personal risks is a lot more common than in Finland. Also Juhani Tulkki, R&D management, mentioned that in his opinion Chinese companies are ready to take more corporate risks than Finnish companies. He reminded about the importance of culture especially in collectivist countries to be present even in the business world must not be forgotten.

CONCLUSION

The aim of the study was to find how does individualism and collectivism affect corporate risk-taking and by conducting a survey to find out which theory from previous studies seems more plausible. Theory that states that individualistic countries are more risk bearing because of individualism is linked to overconfidence, overoptimism and pursuit of self-interest, or the „cushion theory“, which states that people in collectivist cultures are able to take more and bigger risks because of the support of the ingroups. The results show that people considered both individualistic characteristics (overconfidence, overoptimism and pursuit of self-interests) and „cushion theory“ to have positive effect on corporate risk-taking. This could indicate that the mechanisms in culture are not exclusive, but they work at the same time. However ultimately people believed that Chinese companies take more risks. This could be a result of the „cushion theory“ and the fact that Chinese people are actually more overconfident than Finnish people. This question was not in the survey so it can only be speculated. But if the case would be so, it would be more clear that Chinese companies take more risks (cushion theory and overconfidence both having a positive effect on corporate risk-taking)

It can be concluded that Asian countries provide attractive markets for Western businesses due to its rapid economic growth. However, a cluster of challenges originate from the very different cultural factors, high power-distance and collectivism, and values of harmony and relation-orientation. The understanding of cultural differences is crucial for business.

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APPENDICES

Appendix 1. Cultural Dimensions of Asian & Western countries

Table 1. Cultural Dimensions of Asian & Western countries

	Individualism	Power-Distance
<i>Hong Kong</i>	25	68
<i>China</i>	20	80
<i>Japan</i>	46	54
<i>South Korea</i>	18	60
<i>Malaysia</i>	26	104
<i>Philippines</i>	32	94
<i>Singapore</i>	20	74
<i>USA</i>	91	40
<i>Finland</i>	63	33
<i>Germany</i>	67	35
<i>Denmark</i>	74	18

Source: *clearlycultural.com* (Hofstede, 1984)

