Impact of Cultural Background on Decision Styles, Risk Preference and Investment Interests: Macro and Micro-Level Comparative of The US and Japan

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Abstract. This study aims to explore the influence of cultural background on decision-making styles, risk appetite, and investment interests, using macro and micro analysis methods, with the United States and Japan as the main research subjects. The study first analyzes the cultural background of the two countries from a macro perspective. The individualistic culture of the United States promotes investors' enthusiasm in pursuing high returns and high-risk opportunities, while the collectivistic culture of Japan leads investors to prefer stable and low-risk investment options. Subsequently, the study compares in depth the behavioral characteristics of investors in the two countries from a micro perspective. The results show that the high risk tolerance and enthusiasm for emerging technology fields of American investors are closely related to their culture's emphasis on personal interests and independent decision-making. In contrast, Japanese investors show a high degree of emphasis on safety and stability, which is consistent with the cultural values that emphasize collective interests and harmony.

Keywords: Cultural Background; Investment Decision-Making; Risk Preference; Individualism; Collectivism.

1 Introduction

Maximizing profit and managing risk has always been the ultimate goal of finance throughout history [1, 2]. With the rapid development in technology, the approaches of investment witnessed an incredible expansion over the decade, dragging massive numbers of human beings into the global financial market. In such an enormous and complicated market, succeeding and failing exist simultaneously. Individuals equipped with professional knowledge and mature decision styles tend to be capable of avoiding ending up in tragedy or bankruptcy. Since there isn't guaranteed success in the financial market, even elite investors can encounter catastrophic financial situations. Within those elites, differences in knowledge levels could be neglected. What leads to success and failure is the distinction between their model of decision-making, in other words, how they balance rationality and intuition. When discussing how one's decision-making model is formed, dozens of factors could be reasonable.

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Despite this professional knowledge, cultural background appears to rank higher among the rest. This case is meanwhile universal for retail investors with a lack of investment knowledge; in this situation, cultural background is highly responsible for their risk preference as well as their investment strategy [3, 4].

The cultural background of an individual is a sophisticated term in a sense. Tracing down the term in history, around five thousand years ago, the ancient Mesopotamians created the first intellectual human civilization ever in history between the Tigris and Euphrates rivers [5, 6]. With immense innovation, Cuneiform was created by the Mesopotamians and was considered the origin of other word systems. Meanwhile, the creation of cuneiform also provided an alternative approach to passing down culture and knowledge other than oral teaching. This opened the gate for contemporary civilizations to discover those ancient civilizations, even if they were wiped out physically. In modern society, the sphere of culture is broad and indistinct, consisting of multiple factors from ethnicity to religion, from traditions to beliefs, and so on. Those marginal factors, however, affect one's behavior and decision delicately to some extent.

The goal of this study is to prove how cultural background affects an individual's or group's decision-making strategy and its effects on individual risk tolerance as well as investment preference. The study is going to first focus on the Macro analysis of two typical cultures, including the background of the local economy, and dig deep into how and why cultural distinction could result in conspicuous outcomes in two capitalized countries. Thus, the study is going to emphasize the distinct behaviors of individual investors, specifically their investment preferences and risk tolerance, and discuss its connections with their cultural background.

2 Macro: Comparison Between the US and Japan

2.1 Individualism and Collectivism

Previous studies have covered the essence of individualism in the psychology sphere. The nature of individualism could be diversified into eudaimonism, autonomy of selection, accountability of an individual, respect and preservation of rights, and integrity of others [7, 8]. These scattered points reveal the fundamental principle of Individualism, referring to the prioritization of self-interest, freedom, and accountability [9].

As for collectivism, it acts counterrally relative to Individualism. In general, it provides priority to the collective needs and goals of the group over fulfilling individual benefits and demands [10, 11].

2.2 The Presence of Individualism in The US

Considering the US's historical aspect and contemporary aspects, the nation demonstrates a sense of individualism to an extraordinary extent. The exploration of individualism encompasses diving down to personal identities, US policies, and economics. This article will focus on the main aspects, including the analysis of policies and economics. According to the First Amendment, Congress makes no law respecting an establishment of religion or prohibiting its free exercise. It protects freedom of speech, the press, assembly, and the right to petition the Government for a redress of grievances. Serving as the most fundamental constitution in the US, the core of the constitution permits the individuality of US citizens by prioritizing individual rights in expressing beliefs, thoughts, knowledge, perspectives as well as religion over the power of government, guaranteeing full security in verbal expressions of an individual, meanwhile highlighting autonomous of individuals in US culture. Through analysis of the establishment of this knowledge logically. The operations of the US Congress are highly independent. From a general view, external factors could be neglected. The act of Congress authorizing individual liberty by expressing their perspectives showcases how individualism is encouraged by supreme authorizations. Additionally, the First Amendment reveals the existence of individualism in policies and reflects the profound effect of the concept on American culture.

They are moving on to investigate the background of the US economy. Individualism and Capitalism are considered the major themes of the US economy; these two factors tremendously contributed to the formation of the US economy.

2.3 Content Recap: Historical Context of Capitalism in The US

The origin of capitalism can be traced back to the 15th to 17th centuries in Europe, the period in which land was still the main indicator of social wealth and status. The revolutionary migration of capitalism in the US took place during the Industrial Revolution, in which the US economy encountered a shift from agriculture-based to a highly modernized industrial nation. With the help of laissez-faire regulation, enterprises were able to develop without the interference of the government, meanwhile opening up possibilities for innovation and substantial economic growth. From then on to the contemporary circumstances in the US, capitalism was maintained. It was obviously one of the reasons why the US enterprise and investors could generate such stunning profits.

Nowadays, even though the US has encountered various economic shocks, disastrous situations, and periods of recovery in the past decade, the US has still been standing at the peak of the global economy. Thus, capitalism is now profoundly ingrained in US society. The existence of capitalism has been regarded as a form of individualism since the origin of capitalism, allowing individuals to generate personal profit with full access and ownership of their property investment and business.

Furthermore, market competition in the US reveals the principle of individualism as well as the atmosphere of encouraging entrepreneurship and risk-taking values. Individuals who were capable of discovering and filling market vacancies and having outstanding market performance, such as Tesla, Apple, and Google, were highly rewarded financially, earning remarkable revenue and gaining social goodwill. This incentivizes individuals to seek out opportunities even with the probability of failing. Overall, the positive aspects of individualism were a significant factor in the success of the US economy.

2.4 Presence of Collectivism in Japan

Starting from the heart of the nation's culture, the concept of Wa, or, in other words, group harmony, stood out among the rest and lay in the center of the entire culture, incorporating into Japanese societies in various spheres and social groups, including the industries, enterprises, workers and in education. Exploring the basics of the concept encourages people to prioritize group needs and goals over individual profit, expanding the potential of the overall performance of groups through the sacrification of individuals. Thus, the concept highlights the importance in of conflict avoidance, indicating a social norm in the general Japanese society that workers with lower status often are forced to obey or agree under unwillingness to their superior controllers. As past studies have covered, when group disagreement occurs, a high proportion of Japanese senior managers and managers from other countries affected by the Eastern collective culture demonstrate less sympathy towards junior workers by only following present regulations. Furthermore, their behavior demonstrates a tendency to neglect the respect of individual emotions and a lack of morality [12]. In the short run, this act might manage to solve the contemporary issues of the enterprise and generate profit as usual; however, looking in the long run, the incorporation of collectivism is deadly harmful in the context of business, ultimately leading to dissatisfaction among employees and discouragement in their passion and initiative. Besides, preventing junior employees' engagement in the decision-making process with the senior staff is disastrous in cultivating the junior worker's rational mindset. It eliminates innovative thinking, which might even miss potential approaches that could overcome the outputs following the present proposed resolution.

2.5 The Historical Context of The Emergence of Japanese Collectivist Culture

In the context of the history of Japanese collectivist culture, there are substantial factors that contribute to the formation, including the unique landscape and location of Japan, the effects of Chinese culture, and so on. In addition, there is one considered to be a highly reasonable factor for the emergence of the collective society in Japan where movies have been shot about in the present Samurai code of Bushido. Not only could this be a trigger of the establishment of collectivism, but it's also one of the most obvious and direct representations of the collectivist culture.

The word Bushido in Japanese, stated as warriors, was considered to be conceptualized during the Kamakura Period. The concept into English meant "The way of warriors". In modern days, the concept is often translated into films and television, where there are scenes of Japanese warriors cutting their selves in the stomach. This might tend to seem unreal; nevertheless, focusing on the nature of the concept emphasizes one's honor and loyalty to the emperor. This also explains a portion of the behaviors of the Japanese in World War II. Under the present circumstances, the Bushido spirit has innovated as well since War and absolute monarchy are strictly prohibited and eliminated.

2.6 Macro Comparison of The Cultural Background of the US and Japan

In an experiment in science study, there are controlled variables where those factors are kept the same throughout the experiment. In contrast, independent variables are which are factors manipulated by scientists to present the distinctions between the two test bodies. In this case, both The US and Japan existed and developed under a capitalized social system. How could the US and Japan form such strong distinctions in how they ended up nowadays? In such circumstances, obviously, cultural background is inevitably the most reasonable answer to the question, taking on observations between the two nations mentioned above. The US preserved more of an individualistic society and encouraged citizens to chase and protect their self-benefits and profits; by doing so, it accelerated the emergence of higher tolerance for risk and a desire to maximize personal earnings. This situation is also a substantial reason why the US has been capable of maintaining its lead in the global market.

On the other hand, even though Japan is equipped with capitalism as well, the nature of the culture prevented or even buried a portion of its potential after it encountered an economic crisis. Even more surprisingly, the fundamental reason why Japan ended up sacrificing so much from stagflation was not only due to the lack of demand and low desire of the entire society but also due to its collectivist values ingrained in the nation. With the effect of the collective mindset, the Japanese tend to incorporate strategies and plans much more risk converse relatively to people in individualist societies.

3 Micro: Comparison between the US and Japan

3.1 Risk tolerance and Preference among US investors

In terms of preferences and risk tolerance of people in the US, profits and high-risk tolerance come to mind and certainly come first. Meanwhile, the mature financial system incorporated with high-value stocks and the relatively new-born ones do obtain significant potential and present value, opening up dozens of various choices for investors to select from. In the past few years, the market has demonstrated trends of investors transferring to highly profitable sectors, mainly allocated to artificial intelligence, biotech, semiconductors, and countless sectors in the fields of science and technology. According to research conducted, the technology sector gained up to 45% of social interest in the US, ranking top among the rest and overcoming the second sector communication services far out with a gap of almost about 25%. Within the technology sector, the performance of individual stocks stood far out relative to companies in other sectors, namely Apple, Nvidia, and Intel, followed by thousands of brands closely those large enterprises obtain characteristics such as stable performance in stock prices but low potential in the opportunity of experiencing extra growth since it's almost standing on the peak of the global financial market. Subsequently, emerging technology enterprises within the US market are certainly equipped with incredible levels and abilities to generate wealth for investors. For instance, over the past year, investors could gain around 209% percent just for investing in individual companies like CEG, which just joined the Nasdaq-100 index on February 2, 2022. Even more exaggerated, an investor could receive around 416% of their investments in return if they started investing from the beginning. The strong and unstoppable trend of such a boost in market prices indicates the strong demand for US investors in the market. However, despite the strong demand for shares of the enterprise, CEG is still among the list of high-risk investments; what was most striking on the provided charts is that the debt to asset ratio was 0.78, indicating that debt issues aren't quite well covered, meanwhile considering the level of earnings, a great portion of its earnings are non-cash earnings suggesting potential cash flow issues of the company and a stark mislead in the profitability of the enterprise. Combining the previous aspects mentioned above, under the potential of risk, the US investors still displayed a strong desire and demand to invest in stock markets and a general risk tolerance.

3.2 Contradict Behaviors in the Japanese Market

While US investors have a strong sense of risk appetite and will to enter the financial market, the participation of Japanese investors is completely distinct from that of the previous country. Risk-conversed mindsets are deeply rooted in Japanese investors in general; even more seriously, people still prefer putting money into the bank even with negative and almost zero interest rates. This is a snapshot of modern Japanese society to some extent, mainly due to past beliefs and cultures, as well as the Aging population, with more and more older people in the society, the collective becomes even harder to alter, not to mention that the new generation is somehow influenced as well under this kind of social atmosphere. Consequently, this led to the conservativeness of Japanese society, thus directly lowering the demand of people, which is responsible for the presence of Stagflation. According to the estimation by the Bank of Japan, over 50% of a regular household's assets are kept in cash and deposits [13]. This showcases that in the mind of Japanese households, the importance of safety far outstrips higher wealth levels but with potential risks. This also reveals that the nation comprehensively adopts the collective and conservative mindset. Another strong proof of the conservative mindset is that in January 2016, the Bank of Japan proposed the lowest interest rate ever in history, which was negative 0.1%; even with such extreme policies like this, the government still failed to stimulate the demand for the society. Yet the failure to motivate social demand additionally demonstrates the conservative mindset in Japan.

They are, moreover, reflecting on the most favorable stocks among Japanese investors, enterprises including Sony, Toyota, and Takeda. Between those individual stocks, there are similarities such as strong reputation and brand recognition of the enterprise. Furthermore, it provides dividends to Sony with a dividend yield of 0.6%, Toyota with a dividend yield of 2.87%, and Takeda with a dividend yield of 4.11%; this dividend provides investors with fixed extra income, which seems extremely favorable among Japanese investors in their selection of stocks, this again side proofed Japanese investor's pursuit of stability and the ingrained collective and conservative values in the Society.

4 Conclusion

This study reveals the significant impact of cultural background on decision-making styles, risk appetite, and investment interests through macro and micro analysis of the

United States and Japan. The individualistic culture of the United States emphasizes the maximization of personal interests, which promotes investors' high-risk tolerance and pursuit of high-return opportunities, especially in high-risk and high-return fields such as technology. However, the collectivistic culture of Japan emphasizes social harmony and group interests, which leads to investors' more conservative investment tendencies and preferences for stable assets such as cash deposits and dividend-paying stocks despite Japan's long-term low or even negative interest rate environment. At the micro level, this cultural difference is further reflected in the behavior of investors in the two countries. American investors are more willing to take risks in order to obtain high returns, while Japanese investors pay more attention to safety and stability. Overall, although both countries are in a capitalist economic system, the cultural background significantly affects individuals' financial decision-making behavior and also has a profound impact on the country's economic development and market dynamics.

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