

Online Social Networking Increases Financial Risk-Taking

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Abstract

We posit that online social networking such as Facebook increases financial risk-taking because online social circles act as “buffers” against possible financial losses. One field study along with one lab study support our hypothesis. The effects only occur when people perceive their online social circles to be of high quality and when they have a collectivistic self-orientation. This research further provides theoretical richness to the cushion hypothesis by drawing on social capital theory in the sociological literature to extend the hypothesis to an online setting.

Keywords: Facebook, social networking, financial risk-taking, cushion hypothesis

Track: Digital Marketing and Social Media

1.0 Introduction

According to the cushion hypothesis (Hsee & Weber, 1999), the collectivistic social fabric of East Asian communities, like the Chinese, mitigates the adverse outcomes of financial risks that members could experience. In simple terms, members of East Asian collectivistic societies can ask others in their social circle for support. “Support” in this sense does not mean verbal or emotional consolation after suffering losses, which anyone could theoretically offer, but material and financial assistance that members can usually only receive from close others such as family and friends. Such forms of assistance can generally only mitigate financial losses, such that the benefits of cushioning should only occur for financial risks. Indeed, if a student chose a risky essay topic or if a sick patient received an experimental drug, social circles are unable to mitigate the low grade or major side effects from these forms of risk-taking. Consequently, East Asian members perceive financial risks as less risky and thus are more likely to take such risks compared to their Western peers.

Social circles offer social capital, which sociologists define as the sum of resources that people accumulate through relationships with others. The acquisition of social capital can increase well-being, lower crime rate, and even lead to efficient financial markets at the macro level (Bargh & McKenna, 2004). When social capital declines, a community experiences social disorder, there is less participation in civic activities, and more distance and mistrust between community members. Resources from social capital can take various forms, such as useful information, emotional well-being, and – relevant to the current research – material and financial assistance. For instance, a person who has recently lost his job may find housing opportunities and receive low-interest (or even interest-free) loans from her social circle, thus alleviating her temporary financial distress. The cushion hypothesis thus implicitly builds on social capital theory by suggesting that the resources accumulated through social circles can limit their negative consequences on well-being.

People use social networking to fulfil a variety of needs and to connect with others who share their interests and common goals (Horriggan, 2002). But social networking can also increase social capital, especially when online interactions nowadays supplement or replace in-person interactions (Wellman et al., 2001). For instance, members can use distribution lists, photo directories, and search capabilities on online social networks to build online-based relationships with others who may or may not be present offline. The resources from online social capital built via social network sites are plentiful (Valenzuela, Park, & Kee, 2009). A recent Pew Internet survey reported that online users of such sites are more likely to receive help from their peers than non-users (Boase et al., 2006). Online social networking can also help individuals with low psychological well-being to create relationships with friends and neighbours (Bargh & McKenna, 2004). And because of low-cost technology and computer-mediated communication, social networks can reduce relationship barriers and encourage more self-disclosure that otherwise would be difficult to convey via offline channels (Bargh et al., 2002; Tidwell & Walther, 2002). In summary, a person can build social capital and accumulate resources via both offline and online circles.

2.0 The Current Research

We thus posit the following: based on social capital theory and the resources accumulated via social networking sites, online social circles should serve as a “buffer” against the adverse outcomes of financial risks, thereby increasing people’s propensity to take such risks. However,

we should clarify that whether online social circles can actually provide resources is not relevant here. Rather, what *is* relevant is whether users of these sites *perceive* the ability to ask for material and financial assistance from others for help. That is, online social networking increases people's perception of the resources that are available to them from their online friends, even if it may not actually increase those resources in actuality. This is in-line with research suggesting that risk perceptions are the main drivers of risk preferences.

3.0 Field Evidence

This study's purpose was to provide initial evidence for our hypothesis in a field setting. Participants completed a survey regarding their Internet usage habits and an ostensibly-unrelated study on investment decisions. The Internet questionnaire had questions regarding a variety of websites, including social network sites in addition to more generic websites. However, the order of the two sets of materials was counter-balanced. We predicted that participants who received the Internet questionnaire first and thus were primed with social networking would be more willing to take financial risks, and that their willingness to invest in a risky investment would be correlated with social networking usage, compared to participants who received the Internet questionnaire after the investment task.

3.0.1 Procedure. Participants from an online panel ($N = 287$, 30.3 years old, 111 women) indicated how often they use each of Google, Yahoo, Facebook, and Twitter on separate measures (1 = Never, 9 = Very Often). For each question, participants also saw the logo for each website. They also received stock information based on a publicly-traded company on the NASDAQ whose name we omitted from the experimental materials. Participants saw information about the company, including its revenues, net income, assets, liabilities, shareholder equity, and most recent stock price. They indicated how many shares they would purchase in this company, at fixed intervals (1 = 100 shares, 9 = 900 shares) at the most recent stock price, assuming that they had enough money in their bank accounts for all 900 shares. Any money not invested in the company would remain in the bank account with 0% interest. We used the number of shares invested in the company as a measure of risk-taking, with more shares as more risk-taking than fewer shares. We counter-balanced the order of the questionnaires, such that some participants first completed the Internet questionnaire and then the investment task, and others vice versa.

3.0.2 Results. We labelled participants who first received the Internet questionnaire and thus indicated their online social network usage before completing the investment task as "primed" with social network; we labelled the other participants as the "control" condition. We conducted separate correlational analyses for primed and control participants. We averaged the responses to Facebook and Twitter usage to produce a single measure of social networking usage ($r = .22, p < .001$). Among primed participants, investment positively correlated with Google, Yahoo, and social networking. The correlation was statistically stronger with social networking than with Google (Fisher's $Z = 1.88, p < .05$) or Yahoo ($Z = 1.89, p < .05$). Meanwhile, among control participants, investment also positively correlated with Google, Yahoo, and social networking, but only at moderately-significant levels ($.02 \leq p's \leq .07$). Furthermore, investment's correlation with social networking usage was stronger for primed than control participants ($Z = 2.54, p < .01$).

We found that the likelihood of investing in a risky stock was correlated with general Internet usage for both primed and control participants to various degrees. It is interesting that general Internet usage correlated with risk-taking broadly. However, this is not too surprising given that using the Internet may allow people to retrieve. Crucially, the correlation was statistically strongest for social networking (i.e., Facebook and Twitter) among primed participants. These findings from a priming methodology thus provide support for our hypothesis that social networks increases financial risk-taking.

4.0 Experimental Evidence

In our study, we found support that online social networking increases financial, but not other types of risk-taking. In this study, we wanted to demonstrate that it is the quality (weak or strong) of online social circles that leads to the effect. Indeed, if a person can not depend on his or her online social circle for financial or material assistance, the presence of the circle alone should not act as a “buffer” against possible financial losses.

4.0.1 Procedure. We recruited Facebook users ($N = 74$, 28.9 years old, 30 women) from an online panel for this study, ostensibly part of a market research study for the online social network site. Participants first answered several generic questions regarding Facebook, such as how often they used the website, their enjoyment of using the website, their likelihood of recommending the site to a non-user, and their perception of the intrusiveness of advertising on the site. Then, following Wilcox and Stephen (2013), we asked participants to either list the first names of 5 five close or distant friends on Facebook. We randomly chose one name from the list, and asked participants to indicate how often they post on each other’s walls, send instant messages on the network, and check each other’s profiles (1 = Never, 9 = Always). Critically, participants also responded to the following questions: “How likely would you ask [name] for help you if you were in need?”, “How likely would [name] help you financially if you were in need?”, and “How dependable is [name] if you were in distress?” (1 = Very Unlikely/Not Dependable, 9 = Very Likely/Very Dependable).

All participants then completed an ostensibly-unrelated risk-taking questionnaire for the website Poker.com. They received three pairs of risky choices in the loss domain, with each pair involving one risky and the other certain choice (i.e., lose \$50 for sure or a 50/50 chance of losing \$100 or else nothing). Finally, all participants indicated how many friends they have on Facebook.

4.0.2 Results. There were no differences between the “close” and “distant friend” conditions on general attitudes toward Facebook, p ’s $> .37$. There was also no difference between the two conditions on the number of Facebook friends, $p = .46$. We then averaged the three measures regarding the perceived dependability of the close or distant Facebook friend into a single measure ($\alpha = .86$). On this averaged measure, participants in the “close friend” condition considered the friend to be more dependable ($M = 6.64$) than those in the “distant friend” condition ($M = 5.63$), $F(1, 70) = 5.67$, $p < .05$. We then counted the number of risky options that participants chose on the three risky choice questions, such that a higher count (out of 3) indicated greater risk-taking. On this measure, participants in the “close friend” condition were more risk-seeking ($M = 2.21$) than those in the “distant friend” condition ($M = 1.63$), $F(1, 70) = 5.03$, $p < .05$.

We then conducted a mediation analysis, using the friend distance and dependability measure as the IVs, and risk-taking count as the DV. Risk-taking separately regressed onto both friend distance ($\beta = -.24, t = 2.12, p < .05$) and dependability ($\beta = .30, t = 2.71, p < .01$). Dependability also regressed onto friend distance ($\beta = -.30, t = 2.64, p < .01$). But when we regressed risk-taking onto both variables, the influence of friend distance attenuated ($\beta = -.17, t = 1.42, p = .16$), but the influence of dependability remained significant ($\beta = .26, t = 2.18, p < .05$).

5.0 General Discussion

To our knowledge, we are the first to posit a relationship between online social networking use and financial risk-taking. Prior research has demonstrated a correlation between the use of such sites and lower inhibition regarding the posting of personal or private information online (Fogel & Nehmad, 2009). Yet, how social networking sites can affect particular types of risk-taking remains unclear. In particular, our research posits an economic consequence of a ubiquitous online activity. Although we do not measure the macro-effects of increased financial risk-taking due to online social networking, our results do suggest that users of social network sites such as Facebook are more likely to take risks than non-users, thus increasing the amount of risk in their investment portfolios.

Our findings suggest several next steps in research. For instance, while we grouped Facebook, Twitter, and LinkedIn into a generic “social networking” category, it is clear that these sites each serve different purposes. Facebook is for personal usage, while LinkedIn is for professional usage. Do differences between these two social networking sites influence financial risk-taking in the same way? Perhaps users of LinkedIn are less likely to take risks because their online social circles from the social network are only via a professional basis, and thus are perceived as less likely to offer financial and material assistance. Moreover, future research should consider the different ways in which people communicate with their online social circles. It may be that only mere communication via text messages or chat rooms that produces our effects, but not a general propensity to post pictures or read profiles, since these latter activities are less likely to accumulate resources as strongly as actual communication with members of the online social circle.

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