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## How do Different Cultures Weigh Decisions?

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*Psychologists are beginning to uncover differences in how Chinese and Americans make decisions.*

By Beth Azar  
Monitor staff

When it comes to making a decision, most people in a recent survey predicted that Americans, as opposed to the peoples of Asia, would be greater risk takers.

But psychologists who study cultural differences in judgment and decision-making report just the opposite. People in China willingly invest in financial deals that people in the United States deem too risky, find Ohio State's Elke Weber, PhD, and her University of Chicago colleague Christopher Hsee, PhD. And many Asians are more confident in their judgments, says University of Michigan's Frank Yates, PhD.

As the researchers piece together theories of why these cultural differences exist, they hope their work will not only help shape general models of decision-making, but also help international teams--whether business, political or even research teams--work better together.

### **The 'cushion hypothesis'**

When Weber and her colleagues discovered that people in China were willing to make riskier financial decisions than people in the United States, one of the questions they began to ask was whether this meant, as basic economic theories would predict, that the Chinese are less averse to risk than Americans. Do they weigh the expected gain from the investment as more important than the risk of loss? Or could it mean, as Weber and her colleagues have indeed found, that the Chinese perceive the same risks to be smaller than Americans do.

In a recent study published in *Management Science* (Vol. 44, No. 9, p. 1205-1217), for example, Weber and Hsee asked people in the United States, China, Germany and Poland how willing they'd be to invest in a set of financial options, and measured how risky they perceived those options to be. As other studies have found, the Chinese thought the risks were the lowest and were willing to invest the most money, while the Americans were the complete opposite. The other two countries landed in the middle.

When the researchers then controlled for differences in how the cultures perceive risk, they found that the Chinese and the Americans were willing to tolerate the same amount of risk, but that the Chinese simply perceived the financial options as less risky than did the Americans.

Why? Weber and her colleagues propose the "cushion hypothesis," which suggests people in socially collectivist cultures, such as China, can afford greater financial risks because their social networks will cushion them against catastrophic financial falls.

"There's no difference in how much (people in different cultures) enjoy uncertainty," says Weber. "The Chinese perceive the risks as smaller because they're protected."

### **A cognitive phenomenon**

The Chinese not only perceive risks as less risky, but they're also more confident in their judgments than Americans, finds Michigan's Yates. He found that most people surveyed overestimated how accurate they were when asked a list of general knowledge questions--but people in many Asian countries, including Hong Kong, mainland China and

India, were even more overconfident than people in the United States. And the trend extends beyond answers for general knowledge questions.

A study by Yates and his colleagues, published in the journal *Organizational Behavior & Human Decision Processes* (Vol. 7, No. 2, p. 89-117), found the same trend when people in Taiwan, Japan and the United States were asked to diagnose fictional diseases and then to report their confidence in their diagnoses. And Chinese psychologist Zhang Bingxun, PhD, has also found evidence of extreme overconfidence among Chinese economic forecasters.

Interestingly to Yates, the responses of people in Japan look more like those of Americans than they do those of other Asians.

"We had a notion that the phenomenon must be caused by something about Asian cultures more generally," says Yates. "But this finding made it puzzling."

Just as puzzling were standard theories suggesting that ego underlies overconfidence. If that were the case, more ego-driven cultures such as the United States should be more overconfident than more modest cultures such as China and Japan, says Yates. Indeed, when he and his colleagues examined overconfidence on answers to more ego-laden questions--for example, asking students how many of their peers have better math skills than they do--people in the United States were the most overconfident in their standing, Chinese were intermediate and Japanese were among the least overconfident.

"The process underlying general knowledge overconfidence does not rest on ego," says Yates. "Instead, we're dealing with a cognitive phenomenon."

Yates's theory is that people in countries such as China think about problems differently than do people in Japan and the United States. In particular, they hold special respect for history. So instead of personally reasoning through each problem anew, people in China may rely more heavily on what they can recall about facts and precedents established with similar problems in the past.

Yates and his colleagues, including Ju-Whei Lee, PhD, at Chung Yuan University in Taiwan, have found preliminary support for this view. They examined how people from different countries reason through answers to general knowledge questions, such as "For which is the gestation period longer, chimpanzees or humans?"

Before study participants answered the question, they had to list the pros and cons of each of the two answers. For example, a "pro" to answering "humans" might be that chimpanzees are smaller and less advanced than humans; and a "con" might be that you remember reading somewhere that how advanced a species is doesn't predict gestation.

Chinese participants listed cons to the answer they eventually chose only 24 percent of the time. In contrast, the Japanese and U.S. participants came up with arguments contrary to their final answers 48 percent and 43 percent of the time, respectively.

"At a very straightforward level, the Chinese literally didn't see why their choices might be wrong," says Yates. "It was exactly the opposite with the Japanese, who are the least overconfident and generate the most contrary arguments."

It's unclear why the Japanese differ so strongly from people in other Asian countries, says Yates. But some researchers hypothesize that the tendency toward a more argumentative problem-solving style might be a relatively recent phenomenon--perhaps based on the popularity in 1930s Japan of philosopher John Dewey, who emphasized a style of education that relied on learning-by-doing and the scientific method.

Although work on cultural differences may be more interesting from a theoretical than a practical perspective, both Yates and Weber expect their work to eventually inform business people who work on international teams.

"People often talk about the next century as being the Pacific century," says Yates. "If that's so, questions about cultural differences in judgment and decision-making will be crucial."

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# Islam and Business

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*Muslim leader calls sharia loans a 'con job'<sup>1</sup>*

A controversial study looking at Islamic banking by the Canada Mortgage and Housing Corp. has ignited protest from some sectors of the Muslim community.

But despite opposition from the Muslim Canadian Congress, the federal housing authority said yesterday it is going forward with the study looking at banking that adheres to Islam's guiding body of rules, or sharia.

Tarek Fatah, founder of the Muslim Canadian Congress, which bills itself as a progressive Muslim group, said in an interview he was "shocked" to learn that "a Crown corporation is using taxpayers' money" for faith-based banking.

Fatah calls sharia banking the "biggest con job ever. What are we going to have next, Buddhist banking?" he asked.

The congress released a letter yesterday written to CMHC chief executive officer Karen Kinsley, urging the housing authority to abandon the \$100,000 study.

"Religion has no place in the banking or mortgage industry," the letter said.

The group says the vast majority of Canadian Muslims already use conventional mortgages.

However there is a growing market in Canada for sharia-compliant mortgages.

Under sharia rules, it is not permissible for institutions to charge interest on loans. However, the deal is usually structured so that the homeowner ends up leasing to own the property, essentially paying rent instead of interest. As a result, those mortgages end up costing the homeowner the equivalent of an extra one percentage point or more. That is what concerns the congress.

"You are taking advantage of the most disadvantaged people. You are telling them that we will charge you more for your total mortgage and when you die you will go to heaven," Fatah said. "They are using the holy books to prey on a vulnerable market."

Sharia-based banking is already available in Canada, but not through major banks. Sharia banking is widely available in the United Kingdom and is offered by some U.S. banks that see a major financial opportunity.

The global market for Islamic finance has grown more than 20 per cent annually since 2001, and is currently the fastest growing segment of the financial services industry, said a report this month by the law firm Stikeman Elliott LLP.

By 2017, Muslims are expected to make up between 3.7 and 4.9 per cent of Canada's population, which should provide a "tremendous opportunity for financial firms prepared to serve the growing market."

How an Islamic loan works

## IN THE QUR'AN

Islamic law, or sharia, permits commerce but prohibits riba – the collection and payment of interest.

## SHARIA MORTGAGES

Banks that follow Islamic law do not pay or charge interest and cannot assess penalties for late payment.

But they can earn profit by renting and leasing, or by applying service charges.

Instead of lending money and earning interest over time on a home mortgage, an Islamic bank might arrange to purchase the home and resell it to its customer at a profit – a rent-to-own arrangement, with payments made in instalments.

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<sup>1</sup> Toronto Star, January 30, 2008

In response to the criticism by the Muslim groups, Douglas Stewart, the CMHC's vice-president of policy and planning, said in an interview that the agency was not trying to promote Islamic banking in Canada.

"It is not our intention to introduce a mortgage instrument for sharia lending," Stewart said. "We simply want to gather information to better understand sharia banking. It is part of our mandate to understand all aspects of the Canadian housing system."

Monte Solberg, the federal minister responsible for human resources and skills development, said in an interview with the Toronto Star that the market for Islamic mortgages in Canada was already "well served" and there was no reason for the CMHC to introduce a new financial product.

(Apart from research, the national agency also has a mortgage loan insurance division.)

"If private institutions are already serving that market, then we don't need to be involved," Solberg said. "There's no public policy reason."

As for the research proposal, the CMHC says it has had about 10 applications from academics and consultants in response to a proposal call in December.

Meanwhile, one executive at a financial institution that deals with sharia lending said the controversy was unwarranted since it was a matter of religious choice.

"When you purchase halal or kosher meat, you understand that you may be paying a higher price for the same meat that's not kosher. And some people are willing to do that, because religion is important to them. It's as simple as that," he said.