Online interactions can lead to risky financial decision-making

November 1 2011

People who participate in online communities are more likely to make risky financial decisions, according to a new study from researchers at Rice University, the University of British Columbia and the University of Zurich.

The study, "Does Online Community Participation Foster Risky Financial Behavior?", has been accepted for publication in the Journal of Marketing Research. Utpal Dholakia, professor of management at Rice University, Jack (Xinlei) Chen and Juliet Zhu, professors of management at the University of British Columbia and René Algesheimer, chair of marketing and market research at the University of Zurich used a series of field and laboratory studies to examine the behavior of people participating in message boards and chat rooms on the lending website Prosper.com and the auction website eBay.com.

"Emerging evidence indicates that online community participation impacts many aspects of consumer behavior, and our findings reveal that this impact extends to financial decision-making," Dholakia said.

Findings from the paper include:

- On the peer-to-peer lending site Prosper.com, a study of 600 lenders conducted over an 18-month period showed that those who participated in online communities possessed riskier loan portfolios and lent their money to borrowers with worse credit ratings and greater chances of default than community nonparticipants.

- In a controlled field experiment conducted with more than 13,000 eBay customers over a two-year period, those who joined the online community engaged in riskier bidding behaviors by placing more bids on each item and spending more for items they won.
- Online community participants tend to believe that the community will support them in difficult situations, and this perceived support causes them to make riskier financial decisions.
- The more active the participants are within the online community, the riskier their financial decisions tend to be.
- These effects are stronger when the main topics of conversation of the online community are related to investing/bidding issues rather than socializing.

"Participants in these sites somehow come to believe that their fellow community members will come to their aid when something goes wrong, but in reality, they are out there on their own and could suffer adverse consequences," Dholakia said. "These communities are different from social networking sites like Facebook, because the individuals involved are usually strangers whose identities are unknown to the consumer."

The study's main finding that online community participants engage in riskier decision-making is widely applicable and important, Dholakia said.

He likened it to individuals who join an online support group run by a hospital, foundation or advocacy group or members of an online adolescent club. "This may lead to patients choosing riskier treatment options or engaging in high-risk behaviors, some of which could prove detrimental," he said.

Because greater risk taking is usually associated with a greater likelihood of loss, online communities may lead consumers to act in ways that are harmful to not only them personally, Dholakia said. "If, for example, members of a discount brokerage firm's online community invest more aggressively by buying riskier stocks that perform worse than market averages, this would affect them adversely and also hurt the firm's standing and brand name," he said.

Provided by Rice University

Citation: Online interactions can lead to risky financial decision-making (2011, November 1) retrieved 24 April 2024 from https://phys.org/news/2011-11-online-interactions-risky-financial-decision-making.html