Individual-level factors predicting consumer financial behavior at a time of high pressure

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ARTICLE INFO

ABSTRACT

Understanding the individual-level factors relating to consumer financial behaviors during periods of distinct pressure to spend may provide new insights as to the particular barriers people face in maintaining better control over their finances. Using Christmas as a focal example of a financially and psychologically pressured time, we collected survey data (N = 294) in the post-Christmas 2013 period, and investigated the extent to which levels of reported spending and borrowing in relation to Christmas could be predicted by sociodemographics, money management behaviors, and psychological factors such as coping style, locus of control, materialism, and spend-thrift tendencies. A separate analysis examined the kinds of factors relating more specifically to money management behaviors. Spending was predicted by factors including external locus of control and spendthrift tendency. Emotional coping and denial coping predicted borrowing behavior, as did external locus of control. Money management behaviors predicted who borrowed, but were not related to amount borrowed. Spendthrift tendencies and materialistic values were predictive of less active money management. Our findings suggest that interventions to improve financial decision making might prove more effective if increased emphasis is placed on psychological issues such as developing coping skills and buffering agency.

1. Introduction

In the UK, 92% of people report feeling pressure to spend at Christmas (Which?, 2012). The UK's National Debt Line reported an 80% increase in calls after Christmas 2013, with 1 in 20 callers indicating that they would likely miss a household bill in January due to their Christmas expenditure (Money Advice Trust, 2015). Moreover, debtors are also more likely to feel that buying Christmas gifts for children is a necessity for which they would take on further debt (Lea, Webley, & Walker, 1995), and households with children tend to carry higher debts at the point of seeking advice (Evans, McAteer, & Gauvin, 2011). Users of debt advice services are typically aged 35–49, and below the poverty line (Muller, Trier-Damgaard, Devnani, & Stonehouse, 2012). Lower-income households are significantly more likely to use high-cost sources of credit such as payday loans and rent-to-own financing (Bridges & Disney, 2004; Croden, 2000).

In this paper we aimed to identify individual differences predicting financial behaviors during the psychologically and financially pressured Christmas period. We focus on three distinct classes of individual factors: sociodemographics, money management behaviors, and psychological

characteristics. Sociodemographic factors are fundamental to such an investigation; lower income households have substantially higher debt-to-income ratios for instance (Evans et al., 2011). In addition to sociodemographic indicators, money management behaviors such as keeping track of cash flows, balances, and upcoming household bills are likely also critical. Debtors are less likely than non-debtors to have engaged in such money management behaviors, even after controlling for sociodemographic factors (Lea et al., 1995). People with more severe debt (>3 months in arrears) perceive their financial difficulty as partially due to poor money management behaviors (Walker, 1996). Interestingly, individuals on lower incomes may report more active money management behaviors compared to higher income individuals (Atkinson, McKay, Collard, & Kempson, 2007). Yet, as many as 30% of people make no attempt to plan their Christmas expenditure at all, suggesting little focus on managing money at this time (ING, 2014).

To date, much remains unknown about the psychological factors underlying money management tendencies (Pham, Yap, & Dowling, 2012). It has been reported that psychological stress reduces self-control (Fedorikhin & Patrick, 2010) and predicts debt-status (Lea et al., 1995; Walker, 1996). Thus, there is a potential role for how people react to stress during financially pressured times in terms of subsequent financial behaviors. Stress coping strategies can entail attempts to address one's emotional reactions to a stressor, such as engaging in denial, emotional release, or acceptance; or be more problem-focused, involving deliberate acts to try to change the situation itself (Folkman &

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Lazarus, 1985). Emotional release facilitates clearer thinking than denial (Stanton, Kirk, Cameron, & Danoff-Burg, 2000), but problem-focused coping strategies are generally regarded as more adaptive than emotion-focused ones (Carver, Scheier, & Weintraub, 1989).

The high levels of financial and psychological stress people report in relation to Christmas thus make it an opportune time to study whether different coping strategies are associated with different financial behaviors. Some people may feel, however, that they cannot reasonably affect a change in their circumstances. Such a more external locus of control is significantly associated with greater borrowing (Tokunaga, 1993). In contrast, a more internal locus is significantly associated with more active budgeting (Kidwell, Brinberg, & Turrisi, 2003). How one responds to the pressure many experience during the holiday period, then, may in part be associated with one's locus of control.

An additional psychological construct of importance to financial behavior is the tightwad/spendthrift dimension (Rick, Cryder, & Loewenstein, 2008). For "tightwads", spending money may be associated with psychological "pain" (Prelec & Loewenstein, 1998). In contrast, "spendthrifts" have more materialistic values and typically accrue three times as much debt (Rick et al., 2008). Higher materialism is also associated with having more open attitudes to spending (Pinto, Parente, & Palmer, 2000); overspending on consumer goods (Dittmar, Long, & Bond, 2007); being more willing to take out loans to fund the purchase of high-cost consumer goods (Watson, 2003); and a less active money manager (Garðarsdóttir & Dittmar, 2012).

1.1. Research aims

The primary aim of the current study is to assess how different types of individual factors might predict consumer financial behaviors during a period of high financial, and psychological pressure. To that end, we selected a period of time when the various factors considered above might intersect in relation to financial behavior – Christmas. Retail spending in the UK reliably spikes by 45%–55% during this period (Office for National Statistics, 2014), while consumer borrowing reached a seven-year high in the UK in November 2014 (Bank of England, 2015). While nearly a third of people reported not budgeting for Christmas, 58% of people indicated overspending on their Christmas 2012 budget, and only 15% spent to plan (HSBC, 2012). Christmas is also a time when the most commonly cited reasons for overspending include feeling stressed about pleasing friends and family, and being unable to resist consumer temptations (Money Advice Service, 2013, 2014). As a secondary aim, the study also investigates the extent to which sociodemographic, and psychological factors predict how actively people engage in money management behaviors.

2. Method

2.1. Participants and procedure

Our survey was completed by 294 residents of a large UK city in March 2014. Advertisements were placed in several local amenities, such as libraries, council offices, and community centers. Eligible individuals were over 18 years old, and celebrated Christmas. Most respondents (N = 268) completed the online survey, with the remainder (N = 26) completing mailed paper surveys. Table 1 presents their demographic characteristics. The two samples were not significantly different in terms of age, gender, marital status, number of children, employment status, and income. The only significant difference was that online respondents were significantly more likely to have a university degree. Across all participants, average age was 41.2 years (SD = 14.16), with 74.8% being female, 31.3% being married, 60.2% having children, 52.4% having a university degree, 64.3% being employed full-time. Regarding monthly household income: 12.9% earned less than £500; 12.6% earned £501–£800; 9.5% earned £801–£1000; 23.8% earned £1001–£1500; and 41.2% earned >£1500. Participants received £10 for completing the survey.

Table 1
Demographic characteristics of sample.

	Online respondents (N = 268)	Mail respondents (N = 26)	Test of difference
Mean age	41.5	37.6	$t(291) = 1.32$
Female	74.6%	76.9%	$\chi^2 = 0.35$
Is married	31%	34.6%	$\chi^2 = 0.14$
Has children	58.6%	76.9%	$\chi^2 = 3.32$
Has university degree	54.9%	26.9%	$\chi^2 = 0.7.41$*
Is employed	65.3%	53.8%	$\chi^2 = 1.35$
Monthly household income			$\chi^2 = 3.94$
<£500	13.1%	11.5%	
£501–£800	12.3%	15.4%	
£801–£1000	8.6%	19.2%	
£1001–£1500	24.6%	15.4%	
>£1500	41.4%	38%	

* $P < 0.05$.

2.2. Materials and design

2.2.1. Independent measures

The survey included measurements in sociodemographics, money management behaviors, and psychological characteristics. The following provides an overview by class of individuating factor.

2.2.1.1. Sociodemographic factors. Respondents indicated their age, gender (0 = Male, 1 = Female), educational attainment (University degree: 0 = No, 1 = Yes), marital status (Married: 0 = No, 1 = Yes), whether they had children (0 = No, 1 = Yes), employment status (Employed: 0 = No, 1 = Yes), and their household monthly income (based on five ranges coded as 1 = £0–£500 pm, 2 = £501–£800 pm, 3 = £801–£1000 pm, 4 = £1001–£1500 pm, and 5 = £1500+ pm).

2.2.1.2. Money management behaviors. Using Garðarsdóttir and Dittmar's (2012) scale, participants indicated their frequency of engaging in nine money management behaviors (1 = Not at all like me; 6 = Very much like me). An example item asked "I make detailed budgets for my expenses." Responses showed sufficient internal consistency (Cronbach's α = 0.90) to be summed, with higher scores indicating more active money management.

2.2.1.3. Materialistic tendencies. Participants received eight items from Richins and Dawson's (1992). Materialistic Values Scale (Cronbach's α = 0.74), adapted to refer to Christmas (1 = Strongly Disagree; 5 = Strongly Agree). An example item asked "The things I buy at Christmas say a lot about how I am doing in life." Internal consistency was sufficient (Cronbach's α = 0.74) to warrant summing, with higher scores reflecting stronger materialistic values.

2.2.1.4. Tightwad–spendthrift scale. Four items distinguished between "Tightwads" and "Spendthrifts" (Rick et al., 2008). For example, participants rated the extent to which they consider themselves as being like person A who "has trouble limiting their spending" (spendthrift), and Person B who "has trouble spending money" (tightwad) (1 = Never; 5 = Always). Higher overall scores on the recoded items represented more spendthrift-type tendencies (Cronbach's α = 0.76).

2.2.1.5. Locus of control. Six items from Lumpkin's (1988) Brief Version of Levenson's Internal–External Control Scale measured internal locus (e.g. "My life is determined by my own actions", Cronbach's α = 0.64 for 3 items) and "chance" locus (reflecting a more externalized locus e.g. "When I get what I want it's usually because I'm lucky", Cronbach's α = 0.58 for 3 items, which was increased to .59 by removing one item). Responses were provided on a Likert scale (1 = Strongly Disagree; 5 = Strongly Agree).