



Managing consumer debt: Culture, compliance, and completion



Stephanie Dellande^a, Mary C. Gilly^b, John L. Graham^{c,1}

^a Menlo College, United States

^b Merage School of Business, University of California, Irvine, United States

^c Merage School of Business, University of California, Irvine, Irvine, CA 92697, United States

ARTICLE INFO

Article history:

Received 25 October 2014

Received in revised form 18 October 2015

Accepted 19 October 2015

Available online 1 December 2015

Keywords:

Debt

Culture

Compliance

Ethnicity

Latino

ABSTRACT

We examine the cultural dimensions of participation in a debt management program (DMP). Archival data from Consumer Credit Counseling Service provide insights into the behavior of consumers in a DMP. Latino clients differ from Anglo clients, and are ultimately less successful in resolving debt problems. A key difference appears to be the expected monthly payment established for clients. While only debt level determines Latinos' expected payment, Anglos appear to better negotiate an expected payment from creditors, increasing their success. Importantly, homophily increases compliance for Latino debtor–counselor dyads. Overall, this study contributes to the transformative service research (TSR) literature by suggesting ways culture influences adherence to and completion of a DMP, leading to financial freedom for consumers in distress.

© 2015 Elsevier Inc. All rights reserved.

1. Introduction

Household decisions regarding use of credit cards strongly affect consumer welfare. Consumer debt grew when the U.S. saw deregulation of the credit card industry. Two Supreme Court rulings “effectively hobbled state usury laws that once protected consumers from being charged excessively high interest rates and fees” (Garcia, 2007, 3). Also, use of sophisticated research methods in the banking industry to segment and target consumers resulted in exploitation of financially vulnerable consumers (Harrison & Gray, 2010). The number of solicitations of consumers by credit card firms has reached almost four solicitations per month per household (Kerr & Dunn, 2008).

Consequently, in the U.S., household debt is the biggest portion of total debt – in July 2008 it peaked at \$2.6 trillion, more than \$8000 per capita. This number consists of approximately 36% credit card debt and 64% car loans, student loans, appliances, etc. The last time household debt levels were comparable was 1929 (*The Economist*, 2010). New research reveals that consumers are paying off less debt than a year ago, now that “memories of the Great Recession continue to fade” (Yerak, 2014).

Some consumers find they need help addressing debt problems and turn to third parties to help them with creditors and paying down debt. Put in the context of transformative service research, studies that improve these non-profit debt management services have the potential

to create “uplifting changes and improvements in the well-being of both individuals and communities” (Ostrom et al., 2010, 9).

This paper is about American consumer behavior and success in paying down this \$2 trillion household debt. We theorize that culture plays an important role in compliance with a DMP. Compliance leads to successful completion of the program, thus ultimately facilitating management of consumer debt.

Our research questions are: First, does culture affect the likelihood of compliance in and completion of a DMP? Second, if so, how? Third, do clients similar to their counselors have higher compliance and goal attainment rates in a DMP? We take a hypothesis testing approach in answering the first and third questions. For the second we employ data mining/discovery techniques.

Traditionally Anglo households have carried more credit card debt, while Latinos have had a higher percentage of credit card-indebted households. In 2004, of those with credit cards, 79% of Latino households carried credit card debt; in comparison, 54% of Anglo households carry such debt (Garcia, 2007). Does culture influence financial behaviors? We examine this question in the context of how consumers manage credit. In this archival study, we consider the credit and payment records of more than 700 consumers who have chosen to work with a non-profit credit counseling service.

2. Background

2.1. Consumer compliance, goal attainment, and culture

The conceptual base of this paper is consumer compliance theory (Dellande & Gilly, 1998) which encompasses the extent to which

E-mail addresses: sdellande@menlo.edu (S. Dellande), mcgilly@uci.edu (M.C. Gilly), jgraham@uci.edu (J.L. Graham).

¹ Tel.: +1 949 824 8468.

consumers follow the orders, guidelines, or advice of experts and/or services suppliers. Do consumers have their oil changed in their automobiles at mileage intervals suggested by the manufacturers? Do patients floss their teeth every night as dentists recommend? Do clients in DMPs make regular payments to creditors as prescribed by debt counselors?

Such customer compliance leads to goal attainment, assuming the recommendations, of service providers are effective. The construct of goal attainment has been treated extensively in the literature; *Bagozzi and Dholakia (1999)* well demonstrate the potential complexity of the concept describing a hierarchy of goals associated with weight loss (a subordinate goal in their schema) and a potential associated list of focal goals such as health, better appearance, self-esteem, and happiness.

While the compliance dependent service examined here is a debt management program, research in other contexts is relevant (*Dellande, Gilly, & Graham, 2004*). For example, in healthcare, the rate of noncompliance with therapeutic regimens is on average 50% (*Buckalew, 1991; Haynes, 1976*). Moreover, customer culture plays a role in compliance in the health area; *Flynn, Betancourt, and Ormseth (2011)* find that Latino women report lower rates of breast cancer screening compliance than Anglo women.

Personal debt problems may be partially culturally derived. Wide differences in credit card usage are seen across countries. In the U.S. there are 7.4 financial cards and 2.1 credit cards per capita with comparable numbers in Mexico 1.0 and 0.2, respectively (*Euromonitor 2010*). Japanese use personal credit far less than Americans (*Mann, 2002*). Certain European countries such as France also exhibit substantially lower per capita credit card usage rates.

Dean et al.'s (2013, 78) study of credit card behaviors in the U.S. found that a respondent's race was not a "significant predictor of the presence of any form of consumer debt." However, Latinos in the United States in comparison to Anglos on average have fewer assets (*Plath and Stevenson 2005*), larger families (*Peñaloza & Gilly, 1986*), and less experience with financial markets and financial services in general (*Perry & Morris, 2005; Braunstein & Welch, 2002*). Financial product choice differs significantly between Hispanic/Latino consumers and their Anglo counterparts. *Plath and Stevenson (2005)* indicate that Hispanic/Latino consumers prefer less risky investments, e.g., insurance products, over potentially riskier financial products, e.g., common stock, corporate bonds, etc.

In 2012 one survey found average Latino household credit card debt levels to be \$10,002, white \$9775, and African American \$7390. The same organization reports 2008 credit card debt levels at \$6066 for Latino, \$7315 for white, and \$5784 for African Americans (*demos.org, 2012*). The increase for Latino households was an astonishing 65% during the four-year period. While this change in the comparative debt load suggests new urgency to our study, it also poses new challenges around the generality of our findings. Also, Latino and Black families are more likely to carry credit card debt than Anglo families. The debt burden of Latino households is higher, with 26% dedicating more than 40% of their income to debt, the highest of the three ethnic groups (*Garcia 2007*). Generally, consumers less experienced with credit cards have been found to overspend, thus increasing monthly installments and the possibility that financial obligations cannot be met (*Erasmus and Lebani 2008*). Latino consumers in particular "struggle with the everyday reality of financial choices in the United States because of deep-rooted cultural tendencies, lack of information, and lack of access to legitimate financial products" (*McMellon and Moore 2008, 143*).

2.2. Cross-cultural issues

One way to define the role of DMP agencies is as agent/mediator in the negotiation process between debtors and creditors. In the cross-cultural negotiations literature, three difficulties are usually described as causing less efficient and effective processes and outcomes:

(1) differences in cultural values (*Alvarez, Dickson and Hunter 2014*), (2) differences in thinking processes, and (3) differences in communication styles (*Graham 2009*).

Studies have shown cultural values can predict a variety of consumer behaviors. *Money et al. (1998)* have identified relationship-orientation as a key cultural value affecting negotiation processes in particular. *Gelfand et al. (2006)* define relationship-orientation as a propensity to more heavily weight personal relationships vis-à-vis information in negotiations. Latino culture tends to be relationship-oriented while Anglo values emphasize information (*Hall 1983; Hofstede 2001*). In relationship-oriented cultures, time is invested in building and maintaining strong interpersonal relationships that are often hierarchical, even paternalistic in nature (*Hernandez Requejo and Graham 2008*).

Time orientation (*Hall 1983*) is one cultural characteristic that potentially affects financial behaviors, with Latino cultures being less oriented to the importance of punctuality than the U.S. (*Brodowsky, et al. 2008*). Latino culture in the U.S. is influenced by relatively recent immigrants from Mexico and other Latin American countries. *Zimbardo and Boyd (1999, 1285)* report, "... at length about the syndrome of behaviors and traits associated with a present time perspective [e.g., Latinos] and how they combine to predispose such individuals to greater likelihood of failure when faced with situations demanding delay of gratification, planning, goal setting ..." (bracketed comments added). Thus, we should expect Latinos to have more difficulty meeting payment schedules than Anglos.

Relatedly, *Peñaloza and Gilly (1986, 294)* suggest even deeper differences "in the symbolic nature and perceived value of goods and services." *Medina, Saegert, and Gresham (1996)* report that Mexican-Americans and Anglo-Americans differ in the most pertinent aspect of values, that is, attitudes toward money. They report Mexican-Americans to be less concerned with financial planning and saving than Anglo-Americans.

Language and communication differences make exchange of information in negotiations more difficult. Informational asymmetries are predicted to be greater for individuals with English as a second language (*Dellande and Saporoschenko 2004*). *Braunstein and Welch (2002)* posit that, for minority groups, a language barrier can discourage the establishment of banking relationships. ESL individuals (74% of American Hispanics speak Spanish in the home (*Lopez and Gonzalez-Barrer, 2013*)) may be less likely to successfully complete a DMP because they have trouble both understanding counselors' questions and instructions, and describing their own specific needs.

2.3. Homophily

Homophily is the degree to which individuals in a dyad are similar on attributes such as demographics, attitudes, and/or values (*Touhey 1974*). The literature suggests that homophily promotes attitude change and/or cooperation via: (1) clarity of communication, and (2) trust and liking. In the first instance, the literature indicates that when a greater homophily exists between communicators, they are more likely to share common meanings for exchanged messages (*Rogers, Ratzan, and Payne 2001*). Further, when a target finds a source similar, the target is more likely to listen attentively (*Gottlieb and Sarel 1992*). *Simpson, et al. (2000)* suggest that when the receiver perceives him/herself as similar to the source, communication is more effective in shaping or changing attitudes.

Secondly, many researchers have noted that similarity leads to feelings of trust and respect (*Simon, Berkowitz and Moyer, 1970*), and assumptions about common needs and goals (*McGuire 1968*). *Crosby, Evans, and Cowles (1990, 71)* add that in goal-interdependent contexts, "similarity (particularly attitude similarity) may be a cue for expecting the other party to facilitate one's goals."

Theoretical support for the importance of demographic homophily has been consistent. *Fischer, Gainer, and Bristor (1997, 364)* suggest that, "in service settings where the customer expects to have extensive,

Download English Version:

<https://daneshyari.com/en/article/10492668>

Download Persian Version:

<https://daneshyari.com/article/10492668>

[Daneshyari.com](https://daneshyari.com)