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‘I show off, so I am well off’: Subjective economic well-being and conspicuous consumption in an emerging economy

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ABSTRACT

Conspicuous consumption may be explained by the need to signal higher social status in a society. However, whether this consumption actually translates to improved perception of well-being remains unexamined. In the emerging economy context, we argue that conspicuous consumption may play the role of elevating one's own perception of economic well-being. Further we hypothesize the effect to be higher for the households in the ‘bottom of the pyramid’ (BOP). Using data from a panel of 34,621 households from India Human Development Surveys (2004 and 2011), we examine the relationship between conspicuous consumption and subjective economic well-being (SEWB) using several empirical strategies. Results support our hypotheses that higher conspicuous consumption may result in improved SEWB and that the effect is higher for households in the BOP. Our findings contribute to the domain of conspicuous consumption and BOP in emerging markets. Further, our results have significant marketing and policy implications.

1. Introduction

Conspicuous consumption, driven primarily by its visibility rather than its perceived objective utility remains an area of much academic inquiry (Hicks & Hicks, 2014; Kastanakis & Balabanis, 2014; Kaus, 2013; Wang & Grisevicius, 2014). However as evidence of conspicuous consumption emerges from low income populations (Banerjee & Duflo, 2011), it ceases to be an issue only of academic interest, attracting attention from policy makers and practitioners as well. Why is it that the “poor”, who might be expected to spend more on basic necessities, divert expenditure to goods and services that appear to be exhibitionist and unproductive? An underlying explanation in previous inquiries has been the subjective utility (perceptual in nature, and may not be related to objective utility) that consumers derive from conspicuous consumption, based on their perceptions of status (Powdthavee, 2009; Roychowdhury, 2017) and relative positions in society (Jaikumar & Sarin, 2015; van Kempen, 2003). Although promising, in the absence of measures of subjective economic well-being, the explanation is also not one that is very easily amendable to empirical examination, especially in emerging economies like India.

Conspicuous consumption is defined as the use of resources to consume goods with the objective of displaying one's high social status to others (Veblen, 1899). Households may indulge in conspicuous consumption to reduce the dissatisfaction arising from their current

level of possessions in comparison to their peers and to ‘keep up with the Joneses’ (Christen & Morgan, 2005; Frank, 1985). Hence households may feel economically healthy when they are able and willing to signal higher social status via conspicuous consumption. As a result, although considered wasteful from one perspective, conspicuous consumption might play a role in the perceived economic well-being of the household, a dimension of welfare that is increasingly being recognized and studied.

This increased attention to the determinants of subjective economic well-being stems primarily from challenges to the assumption that economic growth leads to better welfare (eg. McBride, 2001) and that the “happiness” of a country may not be associated with its economic growth, a paradox labeled as the ‘Easterlin paradox’ (Easterlin, 1974, 1995, 2001). Possible explanations have pointed to the idea that members of a society are more concerned about relative (rather than absolute) wealth levels, i.e., ‘keeping up with the Joneses’ or outdoing them (Christen & Morgan, 2005; Clark, Frijters, & Shields, 2008; Layard, 2005; McBride, 2001). Recent studies in emerging economies also suggest that households are likely to rely on conspicuous consumption to signal higher status in a society, especially when income inequality levels are higher (e.g. Jaikumar & Sarin, 2015). However, what remains under examined is the extent to which conspicuous consumption actually translates to higher subjective economic well-being.

The limited studies examining this relationship primarily use cross-

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sectional data and/or small scale data sets restricted to small geographies (Linssen, Kempen, & Kraaykamp, 2011), with the evidence remaining inconclusive. We contribute to the literature by using a nationally representative panel data set from India to estimate the relationship between the consumption of such conspicuous products and changes in the perception of one's economic well-being. Using an unique panel dataset of 36,421 Indian households from 2004 and 2011 India Human Development Survey (henceforth IHDS), we find that higher levels of conspicuous consumption are associated with increased perceptions of subjective economic well-being and that this effect is even more pronounced among households in the 'bottom of the pyramid' (henceforth BOP). We believe that the findings from our study pose a number of challenges and opportunities to marketers and policymakers alike, in emerging markets.

The rest of the paper is organized into five sections. First, we provide a brief background on economic growth and subjective well-being in India. We argue that conspicuous consumption might result in an improved sense of economic well-being, as these households are better able to signal higher social status and are able to 'keep up with the Joneses'. Second, based on the key characteristics of the 'bottom of the pyramid' in emerging economies, we hypothesize the effect to be higher for the low-income households. Third, we explain the IHDS panel dataset and few of its unique features that help us in examining the relationship of interest. Fourth, we present the empirical strategies followed to test the hypotheses and then discuss the results. Finally, we explain the marketing and policy implications of our findings.

2. Conspicuous consumption and subjective economic well-being in emerging economies

There is ample evidence for conspicuous consumption in developing countries (Anderson, 2003; Banerjee & Duflo, 2011; Case, Garrib, Menendez, & Olgiati, 2013; Fafchamps & Shilpi, 2008; Guillen-Royo, 2011; Jin, Li, & Wu, 2011; Linssen et al., 2011). Rather than dismissing it as irrational, literature from a variety of disciplines, including economics, psychology and sociology attribute the prevalence of conspicuous consumption to the attention people pay to relative rather than absolute standing in society (Kastanakis & Balabanis, 2012, 2014), as a means of signaling social status (Ordabayeva & Chandon, 2011) and overcoming feelings of relative deprivation (Sen, 1983). The use of conspicuous consumption as an instrument to signal relative status has also been found to be significant in emerging economies such as India, and among the more disadvantaged within it (e.g. Jaikumar & Sarin, 2015). For instance, a field experiment by van Kempen (2004) also revealed that households in Bolivia, a developing economy, were willing to forego expenses on basic needs for conspicuous goods.

Plausible explanations for conspicuous consumption in emerging markets include seeing it as a substitute for educational qualifications and the absence of other means for signaling status (Jaikumar & Sarin, 2015; Moav & Neeman, 2012). For instance, India and several other emerging economies such as Brazil, are characterized by lack of access to proper high return financial institutions (Basu, 2006; Brown, Bulte, & Zhang, 2011; Claessens, 2006; Jung, 1986; Mahajan & Ramola, 1996). Due to this lack of access, households in emerging economies may not involve in 'status savings' (Corneo & Jeanne, 1999), but indulge in conspicuous consumption (Jaikumar & Sarin, 2015; Powdthavee, 2009). An implicit assumption in these explanations is that while conspicuous consumption may not be productive from a material or a basic needs perspective, it serves to improve the subjective economic well-being of the consumers and hence the indulgence in it. However, this is an assumption that has received limited empirical examination. A plausible reason for the lack of empirical studies is the relatively recent attention that the idea of subjective economic well-being has received in studying human welfare.

While quantifying welfare has been a long-standing topic of interest

(Dolan, Peasgood, & White, 2008; McBride, 2001), the last few decades has seen a marked attention to self-reported 'happiness' or subjective well-being (e.g. Easterlin, 2001).¹ A key finding in the subjective well-being literature is that the extent of economic growth in a society may not be associated with overall 'happiness' of the members of the society (Easterlin, 1995). According to the 'Easterlin paradox', "raising the incomes of all, does not increase the happiness of all, because the positive effect of higher income on SWB [subjective well-being] is offset by the negative effect of higher living level norms brought about by the growth in incomes generally" (Easterlin, 1995, p. 36). Instead, people are more likely to anchor their sense of economic well-being on the relative income levels prevalent in the society (Layard, 2005). Since income levels are not directly observable, households are likely to resort to more visible forms of consumption to signal their relative status and find ways to 'keep up with the Joneses' (Christen & Morgan, 2005), and eventually report deriving 'welfare' in doing so. Building on these arguments, we hypothesize that households spending a higher percentage on conspicuous goods, are more likely to report higher levels of SEWB.

H1. The amount spent on conspicuous products is likely to have a positive impact on SEWB, while controlling for objective indicators of economic growth and welfare.

2.1. Conspicuous consumption in the 'bottom of the pyramid'

The literature on 'keeping up with the Joneses' and 'status consumption', which links our hypothesized relationship between subjective economic well-being and conspicuous consumption, can be seen as having its origins in the relative income hypothesis proposed by Duesenberry (1949). According to Duesenberry's theory, a household's attitude towards consumption and savings are greatly influenced by the relative position in terms of the household's income, rather than by the abstract standard of living. Further, the relative income hypothesis argues that the propensity to spend on consumption increases for a household in the lower end of the income ladder.

One of the key characteristics of emerging economies is the presence of 'below the poverty line' households, termed as the 'bottom of the pyramid' (Pralhad & Hammond, 2002; Sheth, 2011) and several studies have examined the differences in consumption behavior of such BOP households (e.g. Elliot, Cherian, & Elaydi, 2014; Gau, Ramirez, Barua, & Gonzalez, 2014; London, Anupindi, & Sheth, 2010). While 'bottom of the pyramid' may just be an economic phenomenon as per the constrained view of poverty based on neoclassical approach, these households may be characterized by inclusion of sociocultural aspects of consumption, such as consuming for social acceptance and desirability (Laderchi, Saith, & Stewart, 2003). Fueled by material deprivation that affects the sense of well-being and ill-being (Bertrand, Mullainathan, & Shafir, 2006; Chakravarti, 2006), the consumption propensities of the BOP households are highly influenced by the socioeconomic environment (Sinha, Tripathi, & Mishra, 1982). Further, prolonged material deprivation may have an impact on self-efficacy (Moller, Ryan, & Deci, 2006), which in turn may result in the BOP households losing self-control (Mullainathan, 2007) to balance the consumption across the present (e.g. conspicuous products) and the future (e.g. savings and education). This may further be complicated by the lack of future orientation among BOP households to produce imprudent consumption actions in the present (Lieberman & Trope, 2000; Lynch & Zauberman, 2006). Evidently, the motivation and consumption patterns of these BOP households and their resulting sense of

¹ In this paper, we specifically focus on subjective economic well-being - a subcategory of overall well-being - a target variable of economic policy. However, this is not a distinction that is always made in the literature, hence we broadly rely on the subjective well-being literature to draw inferences for our relationship of interest - subjective economic well-being (SEWB) and conspicuous consumption.

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