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ScienceDirect
Revue européenne de psychologie appliquée 57 (2007) 267–283
Revue européenne de psychologie appliquée
http://france.elsevier.com/direct/ERAP/

Original article

Consumer credit use: a process model and literature review

Crédit à la consommation : modèle de processus et revue de littérature

B. Kamleitner*, E. Kirchler

Faculty of Psychology, University of Vienna, Universitaetsstrasse 7, 1010 Vienna, Austria

Received 24 January 2006; accepted 7 September 2006

Abstract

By taking on a consumer viewpoint, we apply a process framework to our review of varied literature on consumer credit use, and introduce a process model. This conceptual model relates credit use to other consumer decisions, and is comprised of three main parts: (a) processes before credit take up, (b) processes at credit take up, and (c) processes after credit take up. In the literature review and the subsequent discussion section, frequent shortcomings of, and gaps in, research on consumer credit use are identified and implications for future research are derived.

Résumé

En prenant une perspective de consommateur, nous présentons un modèle de processus, qui constitue un cadre pour notre aperçu bibliographique de l'usage du crédit à la consommation. Ce modèle conceptuel relie l'usage de crédit à d'autres décisions de consommateur, et consiste en trois parties principales : (a) les processus avant que le crédit ne soit contracté ; (b) les processus pendant que le crédit est contracté ; et (c) les processus après que le crédit a été contracté. Dans l'aperçu bibliographique puis la discussion du problème, les fréquents points faibles et lacunes de la recherche sur l'usage de crédit à la consommation seront identifiés ainsi que les implications pour la recherche future qui en sont dérivées.

Keywords: Consumer credit; Credit user behavior; Credit user characteristics

Mots clés : Crédit à la consommation ; Attitude des consommateurs ; Caractéristiques des emprunteurs

1. Introduction

> Modern man drives a mortgaged car over a bond-financed highway on credit card gas.
> Earl Wilson

Consumer credit use is rising. This trend has been noticed by numerous researchers and resulted in a flood of empirical findings. However, research has often concentrated on particular aspects of the phenomenon. Despite manifold findings, an overall picture has not yet emerged. Even definitions of the term consumer credit are varying. This article provides a common frame by suggesting to view consumer credit use as a long-term process. The authors focus on consumer credit use from the perspective of the credit user and develop a phenomenological process model. A comprehensive literature review along with the model is provided. A discussion of shortcomings of previous research and suggestions for future research conclude this article.

Indebtedness and bankruptcy in private households as a result of growing consumer credit use are rapidly increasing in Western societies. In the United States, household debt is at a record high (Maki, 1999), while less people possess saving accounts (Merskin, 1998); the volume of outstanding consumer credit in France has doubled between 1990 and 2003 (COFIDIS, 2004); in the UK and Germany this growth has even been exceeded (e.g. Brown et al., 2005); and in the new member states of the European Union, consumers longing for Western

* Corresponding author.
E-mail addresses: bernadette.kamleitner@univie.ac.at (B. Kamleitner), erich.kirchler@univie.ac.at (E. Kirchler).

1162-9088/$ - see front matter
doi:10.1016/j.erap.2006.09.003

living standards are increasingly ready to use credit (Babeau, 2004).

Credit use has become socially acceptable (Merskin, 1998; Watkins, 2000; Weller, 1997), and consumers rely on credit arrangements (Estelami, 2001). Driving forces of consumer behavior in Western societies are hedonic values (Gourgé, 2001; Schulze, 1996) as well as an increase in present-orientation (Wood, 1998). Both promote credit use for the acquisition of consumer goods. Consequently, credit use no longer means investing in one's personal future, but rather has made it acceptable and accessible for acquiring luxury goods, cars, vacations, and other services (e.g. Lunt and Livingstone, 1992; Norton, 1993). For example, 82% of US citizens stated that it was acceptable for them to use consumer credit for the purchase of cars (Engel et al., 1993). In addition, post-modern societies support the rise of compulsive consumption (Neuner et al., 2005; Tokunaga, 1993), which is facilitated by increasing credit availability. Credit use by private households has various consequences on social, psychological, economic, and political levels. Accordingly, research on credit use has become an expedient undertaking.

2. Definition of consumer credit

The Columbia Encyclopedia ("The Columbia Encyclopedia," 2001) defines credit as "granting of goods, services, or money in return for a promise of future payment." Consumer credit is a kind of credit that is defined as "credit obtained [by private households] to finance any purchase other than property (Guardia, 2002, p. 2)". Consumer credit is a broad term comprising all kinds of installment credit (e.g. credit cards) as well as non-installment credit except mortgage debt (i.e. mostly loans for real estate secured by real estate). Home equity loans (i.e. loans used for other purposes than real estate, but secured by a lien on a home), thus, fall under the definition of consumer credit.

Although the theoretical definition of consumer credit is quite clear, concepts in people's minds are not. Viaud and Roland-Lévy (2000) report a common differentiation between credit and debt. The term credit is used to describe financing of necessary acquisitions (e.g. car, house) and carries a positive connotation. The term debt is used to describe borrowing money for non-essential consumer goods and has ambivalent connotations. Sometimes similar differentiations are useful in scientific research. For example, Lea (1999) also distinguishes between credit and debt. However, he defines 'credit' as deferred payment on agreed terms, 'debt' as a buyer's deferred payment without an agreement between buyer and seller, and 'problem debt' as debt that is not repayable in the foreseeable future. In this article, the term consumer credit will be used for all forms and degrees of consumer indebtedness except mortgage credit. Apart from the fact that the term debt is often used synonymous to credit, at least three arguments support the use of the overall term consumer credit. First, Lea's definition allows describing debt as a possible phase or result in the process of credit use. Second, credit users, debtors, and problem debtors show similar patterns of personality and situational characteristics, although they differ in magnitude (Lea et al., 1993; Lea et al., 1995; Webley and Nyhus, 2001). Third, in most cases debt is a short-term problem (Webley and Nyhus, 2001), meaning that 'debtors' are usually returning into ordinary credit users within a short period of time (see also Canner and Luckett, 1991).

3. Credit use: development of a conceptual process model

Purchasing a good on credit differs from other purchases in that the good is payable during and/or after consumption. Though this subjoins additional aspects to the purchase process, consumer credit use has mostly been investigated as if it were a one-shot payment event like most purchases. Instead of dissipating credit use into single aspects (e.g. characteristics of the typical credit user), as has been the usual practice, we propose to view credit use as an overall process, starting from the first consideration of a good and finishing with the end of the payback period. This process view allows us to identify steps in the process not yet sufficiently investigated and establish a phenomenological link between credit use and related phenomena like one-shot purchases and saving.

In an attempt towards a process perspective, we design a conceptual model that highlights essential steps in credit use. We develop a framework that describes processes of purchase decisions in the private household, in particular credit use, and that allows the integration of diverse phenomena of consumer behavior as already proposed by Garcia (1980) and to position isolated empirical findings on credit use. In order to develop such an integrative conceptual framework, we draw on (a) Kirchler's (1989; Kirchler et al., 2001) model of purchase decisions within the private household, on (b) process information gathered in three expert interviews with a bank employee, a consultant of an advisory service for indebted people, and an expert of a credit counseling institution, and on (c) previous findings as reported in the subsequent literature review. The conceptual model specified below is an attempt to integrate the above mentioned sources and resulted from a workshop involving six economic psychologists.

Two horizontal lines split the model into three major parts of the credit process: part I contains all processes before actually deciding for credit use. Part II deals with processes related to the actual take up decision, and part III contains processes after actual credit take up (i.e. the repayment period). The model acknowledges that any kind of economic behavior is influenced by various personal characteristics (e.g. attitudes towards credit) and situational circumstances (e.g. financial situation) which might interact in many ways and be influenced by credit behavior itself. These factors are assumed to affect all steps of the process model (Fig. 1). It also has to be emphasized that decisions do not necessarily develop strictly in a linear sequence as the model might suggest. People may sometimes decide in the presented order, but they may also jump back or forward, or skip some steps entirely. This is especially true for spontaneous credit use, like spontaneous pur-