Culture, Self-Control, and Consumer Financial Behavior

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Culture has a profound effect on how we orient ourselves to others and in turn may shape our ability to self-regulate impulsive behavior. In terms of financial behavior, culture may play a role in our decisions leading us to engage not only in more prudent financial savings behavior but also giving us confidence to take on higher levels of investing risk. Data were collected from 534 participants from ethnic groups in the U.S. on their attitudes and behaviors when making financial choices. Using a partial least squares analysis, the study found that participants from ethnicities with higher collectivist tendencies had higher levels of self-control which lead to higher levels of savings behavior and financial risk behavior versus other ethnicities.

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Some people are better at saving money for the future, paying their bills on time, sticking to their diets, and living up to their promises. One common trait for these people is the ability to regulate behavior. Maintaining self-control, defined as the ability to monitor one’s behaviors and choose actions that minimize negative outcomes (Baumeister 2002), is important to living a healthier and happier life. Individuals who exhibit self-control are more likely to have higher grades in school, more wealth accumulation, higher self-esteem, lower reports of psychopathology, less binge eating, lower levels of alcohol abuse, lower levels of addictions of all kinds, better relationships and more secure interpersonal attachments (Tangney, Baumeister, and Boone 2004). Experiments have shown that when people are excluded from social groups, they tend to demonstrate a decreased ability to regulate their behavior.

A key dimension of cultural orientation is collectivism-individualism. Collective cultures tend to emphasize group cohesion and harmony while individualistic cultures emphasize individualism and uniqueness. On the level of the individual, this construct is operationalized as an independent versus interdependent construal (Mandel 2003; Markus and Kitayama 1991; Singelis 1994). People who tend to hold more independent views are more likely to see themselves as distinct from others and view autonomy, self-sufficiency and the individual as important. Those who hold an interdependent self view will see themselves as interconnected with others and view connectedness, social context and the group as important. The independent view is usually ascribed to Westerners for example Americans and the interdependent view is usually associated with Easterners for example Chinese. One study found that subjects who were primed with an interdependent self-construal were more likely to take on financial risk but less likely to take on social risk versus those primed with a independent self-construal (Mandel 2003). However, this research emphasized the mediating effect of social network without looking at the role of self-control.

It has been argued that cultures vary in terms of the value they place on self-control (Fox and Calkins 2003; Logue 1995). Cultures where group cohesion and interdependence are important would be more likely to value self-control from their group members. If self-control is indeed a skill that can be taught and improved with practice, whether the development of this skill is coveted within a cultural group will have important implications for control-related behaviors in its members.

On the other hand, ethnic groups in the U.S. vary greatly in their propensity for financial risk. For example, recent work found that investment portfolios of Hispanic Americans tended to favor near-term savings, liquid and low risk investments versus non-Hispanic Americans even when controlling for income (Plath and Stevenson 2005). This leads to lower investment value and slower wealth accumulation rates for Hispanic American households. African American consumers also differ significantly from other Americans in their financial decision making in terms of financial product preference, product research and investment asset portfolio composition (Plath and Stevenson 2000). Investment portfolios for African Americans tend to concentrate in more conservative investments such as real property and life insurance assets in contrast with most Caucasian Americans who tend to hold higher corporate debt and equity securities. Overall, a test of the effect of race and ethnicity on financial risk tolerance found that Caucasian Americans had the highest...
financial risk tolerance, followed by African Americans and Hispanic Americans (Yao, Gutter, and Hanna 2005). While in these studies Asian Americans were not included in the samples, these findings seem to indicate nonetheless that culture has an impact on consumers’ financial risk decisions and product choices. This is contrary to the intuitive expectation that individuals with more self-control would tend to refrain from taking risks (Tangney et al. 2004; Weber, Blais, and Betz 2002). It may be that increased self-control allows individuals to feel confident taking on more financial risk. The seeming contradiction between self-control and risk-taking financial behavior among different ethnic groups offers an opportunity to investigate how culture impacts choices involving risk and whether these behaviors can explain the divergent financial choices that ethnic groups exhibit. These issues are the topic of this study.

While no study has yet been conducted on cultural variations in self-control, Kacen and Lee (2002) conducted a study on the opposite trait, impulsiveness, and found that collectivists have the same likelihood of the trait impulsiveness but show less overall impulse buying behavior. While the trait impulsiveness seems to be equally distributed regardless of culture, culture was an important determinant in the expression of that trait exhibited in impulse buying behavior. It may be that certain cultures and ethnic groups value self-control more than others and therefore tend to teach and reinforce this skill. That would mean that individuals in these cultures have more stamina when exercising their self-control “muscle.”

Data were collected from 534 participants on their attitudes and behaviors when making financial choices. In addition, demographic (ethnicity, age, gender, etc.), investing and income information was collected. The survey was administered via an online questionnaire. These data were analyzed using partial least squares (PLS) to examine the latent and structural relationship between the variables. PLS was chosen as the method of analysis since it allows for complex measurement and theoretical models to be estimated simultaneously (Falk and Miller 1992; West and Graham 2004). Preliminary results of the analysis found that the participants who belong to collectivist ethnicities, such as Asian Americans, tended to have higher levels of self-control when making financial decisions. These participants also had lower levels of impulsive behavior versus ethnic groups with higher levels of individualism. This resulted in higher levels of savings behavior versus spending behavior and higher propensity for financial risk.

References