When Status Pulls You One Way and Another: a Dilemma For Sustainable Investments

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Our research contributes to the literature on pro-social consumption. We show that for visible choices, status activation increases the likelihood of pro-social behaviors but that for private decisions, status activation can be counterproductive for products such as sustainable investments where status also activates concerns about potential future wealth loss.

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EXTENDED ABSTRACT

According to the Forum for Sustainable and Responsible Investment (US SIF 2012), Sustainable and Responsible Investments (SRIs) roughly account for 3 trillion dollars, that is, about 12% of the total US investment market. Compared to traditional investments, SRIs are not only focusing on financial performance but also on ethical and environmental considerations. Our purpose in this research is to investigate whether status motives, which have been shown to foster pro-social behavior, are also effective in convincing consumers to invest in SRIs.

Griskevicius, Tybur, and Van den Bergh (2010) show that activating status motives is an effective mechanism in making consumers choose pro-social goods. They explain this phenomenon through costly signaling theory: individuals willingly incur the cost of purchasing a product that shows their care about others (or the environment) and use this cost as a signal to increase their status in society (their ability to incur altruistic costs is a signal of their superior status). Activating status motives therefore favors pro-social behaviors. Our focus in this research is to test whether this theory, applied so far to material products, can be extended to SRIs.

Costly signaling theory implies that an altruistic action can be used as signal to others. Because investments are private (unlike the products studied in previous research so far, investments are not potentially visible after the purchase), we suggest that status motives are not sufficient to trigger costly signaling activities; in fact, we argue that status motives are only functioning when the purchase is visible, so that it has some signaling value (Glazer and Konrad, 1996; Harbaugh, 1998); Milinski, Semmann, Krambeck, and Marotzke, 2006).

Consumers have been shown to behave quite differently for material goods and for money. As shown by Morewedge, Holtzman, and Epley (2007), simply thinking about financial accounts is enough to activate wealth considerations in consumer minds. In a recent paper, Goldstein, Johnson, and Sharpe (2008) explore consumer preferences for retirement products; they show that when confronted to financial products, consumers weigh in their expected future wealth with the costs incurred for each product. Furthermore, previous research suggests that individuals acquire wealth not only for the consumption that can be derived from it, but because of the status inducing effect of the money itself: individuals who care a lot about their (financial and social) status in comparison to others are especially interested in maintaining their wealth by gaining money (Bakshi and Chen, 1996); in contrast, persons with a lower income help others more, even if it is harder for them to afford (Piff, Kraus, Côté, Cheng, and Keltner, 2010; Rucker, Dubois, and Galinsky 2011) greater exposure to threat, and a reduced sense of personal control. Given these life circumstances, one might expect lower class individuals to engage in less prosocial behavior, prioritizing self-interest over the welfare of others. The authors hypothesized, by contrast, that lower class individuals orient to the welfare of others as a means to adapt to their more hostile environments and that this orientation gives rise to greater prosocial behavior. Across 4 studies, lower class individuals proved to be more generous (Study 1). In general, caring about status should make investors more averse to poverty and therefore make them choose investments that promise to increase their wealth quickly.

For the purchase of SRIs, we suggest that these two phenomena occur concurrently and we therefore expect consumers to face a dilemma. On one hand, according to costly signaling theory, status motives (and visibility) should make SRIs attractive. On the other hand, to the extent that SRIs are typically less attractive financially than traditional investments, consumers are likely to concentrate on lost future wealth, and therefore on the associated loss in future status associated with a lower investment yield. We therefore predict that when status motives are activated, SRI purchase will only improve in the case where the purchase is made visible; when the purchase is private, we expect status motives to activate concerns about future status loss and therefore to be counterproductive for the purchase of SRIs. We test these predictions in an experimental context.

Our main study consists of a (2 by 2) between-subject experiment, in which we manipulate status motives and decision visibility. 566 individuals (218 women, average age of 30.3 years) participated in the experimental study in exchange for the chance to win some Amazon vouchers. Status motives were manipulated using the scenario developed by Griskevicius et al (2009), in which participants are asked to project themselves in their first day on the job at a new company, with a detailed description focusing on high status features. To manipulate visibility, participants in the public condition were asked to imagine making their investment decision in the presence of an investment consultant and told that they would receive an email containing an evaluation of their performance in comparison to other participants; they were asked for their e-mail address. Participants in the private situation received no such instructions. After receiving background instructions about investment decisions, participants were asked to choose between a conventional investment and a pro-social one (SRI); the conventional product slightly outperformed the SRI. Demand checks at the end of the study revealed that no participant correctly guessed the purpose of the experiment.

We predicted that status activation would hurt SRI choice when choices are kept private and would only benefit SRI choice when choices are made public. Indeed, our results show that making choices public when status motives are active (and this, even though our visibility manipulation actually focused on performance) systemati
cally increased SRI choice ($\chi^2(1) = 22.447$, $p < .01$). Moreover, as predicted, for private choices, status manipulations hurt the probability to choose SRIs over traditional investments ($\chi^2(1) = 5.036$, $p = .025$).

In further analyses, we replicated these patterns of results for a higher performance gap between conventional investments and SRIs and also investigated personality difference factors such as participants’ income and experience with investment products.

Our research contributes to the growing literature on pro-social consumption. Our results are consistent with costly signaling theory: we show that visibility increases the likelihood of pro-social behaviors. Compared to recent literature in this area however, our results indicate that for private decisions, status activation can be counterproductive for products such as SRIs where status also activates concerns about potential future wealth loss. This study therefore provides a refined perspective on the effects of status and visibility on pro-social consumption, and offers first policy implications for SRI promotion.
REFERENCES


