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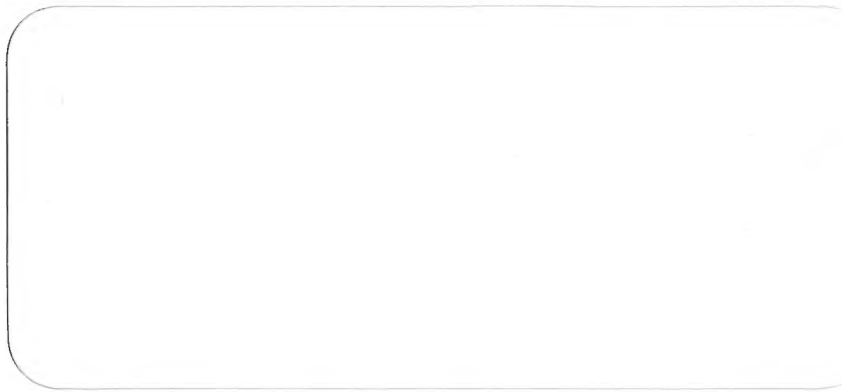
Faculty Working Papers

Family Decision-Making and Economic Behavior

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Maximization of consumer utility, or consumer welfare, subject to constraints on available resources has been the avowed objective of economics ever since its inception. The original approach, still used in much mathematical model building, was to assume that the individual acted as an "economic man", maximizing his utility subject only to relative prices and to the constraint of his income or financial resources. Although this approach is still very useful as a first approximation, particularly in mathematical model building, it has long since been recognized that individuals do not act on the basis of economic considerations alone, and that regardless whether an individual's set of utilities can be considered as rational from an economic point of view, many different considerations intervene between the formation of these utilities and their realization in the market place. These considerations involve not only economic factors but also a host of additional factors that lead into subareas of many of the other social sciences, especially sociology, social psychology and psychology. Conceptually, this development has been recognized by the increasing use of the term, "consumer behavior", to denote the study of the actions that consumers take and of the determinants of these actions.

From a more concrete point of view, however, relatively little attention has been given to bringing together these various dimensions of consumer behavior within the framework of the family to provide more

realistic explanations of economic behavior. This oversight constitutes a major gap in economic research, and is unfortunate for at least two reasons. One is that the economic actions of the family constitute a very large part of consumer behavior, for these actions encompass what families do in earning, spending and saving, as well as the decisions and the factors affecting decisions behind these actions. These decisions are motivated not only by economic variables but by a host of additional factors, such as goals and expectations, demographic characteristics, social structure, and the norms and values of society. Hence, understanding these decisions involves the introduction of variables from many different fields.

The second reason is that in each of these different fields information has been accumulating on family economic behavior. These studies are frequently very narrow and restricted, and even more frequently do not receive any attention from economists, partly because they are not done by economists or appear in economics publications. As will be shown in this paper, an appreciable amount of this type of information exists and needs to be brought together within a more general framework in the study of family economic behavior.

Another facet of this subject is the impact that family economic behavior itself may have on the political and social structure of our society. That such behavior does have an impact is unquestioned, but the awareness and the study of the nature of this impact are as yet only in the formative stages.

In line with the foregoing comments, it is the objective of this paper to review consumer financial behavior with particular reference

to saving and spending within a broad decision-making framework. Hopefully, this framework will allow for many different types of variables to be taken into account and will also serve as a basis for reviewing and synthesizing what has been done on this general subject and of highlighting principal areas where additional research is needed. At the same time, this framework should also help to show how the other papers in this Conference relate to the general topic as well as to each other. Taken together, it is hoped that the material presented at this Conference will help to illustrate the full dimensions of the study of family economic behavior and of the type of studies and approaches that offer the most promise for contributing to our knowledge of this subject.

I. A Decision Framework

The general approach taken in this paper is to consider the different types of decisions that enter into family saving and spending behavior, the manner in which they relate to each other, and what is known about each of these decisions from different disciplines. The broad interrelations are tied together by means of a simple framework, which serves as the basis for synthesizing what is and is not known about each type of decision rather than what has been studied of this subject in each discipline separately. Reviews of the latter type have been undertaken periodically; they are very useful in themselves and also provide part of the material for this paper. This framework is not meant to substitute for the much more elaborate decision framework developed in other studies.* The purpose of this framework is

*For example, see Howard, J.A. and J. Sheth, The Theory of Buyer Behavior. New York: McGraw-Hill Book Co., 1970.

solely to provide some structure to this review of a particular class of economic decisions, and for this purpose a relatively simple framework seems sufficient.

The basis for our framework is segmentation of family economic decisions into two types -- financial and non-financial. Financial decisions for the present purposes involve four principal types of decisions, namely money management, saving decisions, spending decisions, and asset management (Figure 1). Non-financial decisions are most easily defined as including all other types of economic decisions. Since the focus of this paper is on financial decisions, it seems unnecessary to provide any further classification of non-financial decisions other than to point out that they cover a wide variety of decisions, including whether to have children, choice between work and leisure, choice of an occupation, and the decision of where to live.*

Both financial and non-financial decisions are affected directly by the available financial resources of the family, by the objectives or goals of the family and by the attitudes of the family members. Objectives and attitudes encompass many different facets. Thus, objectives encompass both the material and the non-material goals of the family in the long run as well as in the short run, though from the point of view of this paper the material short run goals are likely to be more influential than any other type. The concept of attitudes refers not only to the expectations and outlook of the different

*Such decisions are not devoid of financial consequences either, and in this sense the distinction between financial and non-financial decisions is by no means as clear-cut as is implied by Figure 1. The distinction is pertinent more in the sense that the primary (and conscious) focus is on financial variables in decisions of the former type.

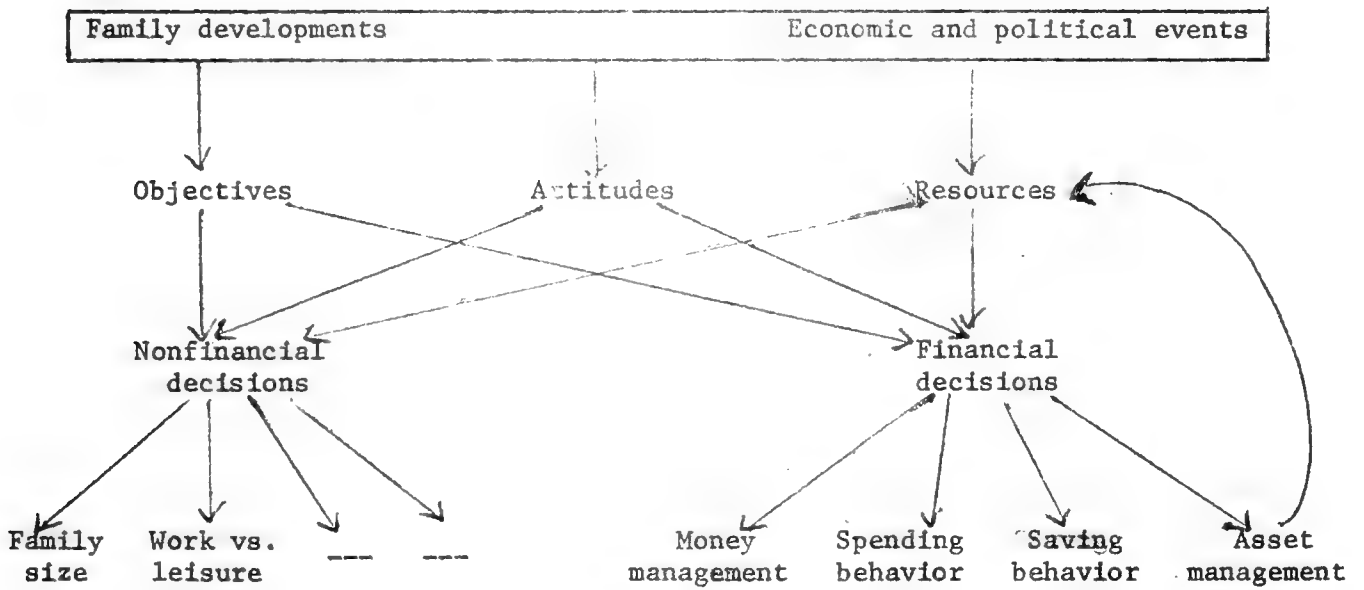


Figure 1. Interrelation of Saving and Spending Decisions

family members on economic and related events but also to their system of preferences and of value judgments among alternative types of economic behavior, particularly as between spending and saving.

It should also be noted that to a large extent this framework itself is dominated by a number of factors that are exogenous to it, in particular, economic and political events in the community in which the family resides and personal developments with the individual family members (such as births, deaths, marriages, accidents, job layoffs, etc.). As noted in Figure 1, these broader factors serve as a backdrop for our framework, which is essentially concerned with micro behavior.

With the focus of this paper on financial decisions, we now turn to a more detailed examination of the nature of these decisions.

1. Financial Decisions. Before considering individual decisions that are made by the family in the financial area, it seems wise to take an overview and to consider some of the basic factors that underlie these decisions within the framework of the family. Such factors relate partly to the role of financial planning within the family and partly to the nature and extent of financial decisions. It should be stressed that financial planning and financial decision-making are not the same thing, and though the former may involve the latter, very different sorts of events are involved. Paramount in both respects are the roles of husbands and wives, a subject on which a fair amount of information seems to be available in some not very widely publicized sources. Especial attention has been given to the effect of working wives, as we shall see.

Consideration of the literature on these topics provides a much more meaningful perspective from which to assess the four major types of financial subdecisions outlined in Figure 1.

2. Money Management. Arrangements within the family for the handling of money, payment of bills, budgeting, and keeping accounts is of value not only in itself but also for throwing light on the influence of different family members in financial decisions. In addition, the family member that performs such caretaker roles is likely to be a key source of information in seeking financial data about the family. Of additional interest is the question of the extent to which the financial caretaker in one sense is also the financial caretaker in another sense, and of the interrelationship between the financial caretaker role and other aspects of financial decisions.

3. Spending Behavior. A multitude of individual decisions are encompassed under this heading, probably much more than any of the other decision categories used in this paper, because of the many forms and ways in which spending can take place. These decisions can be classified under two broad categories, namely, formation of the decisions and their execution. The act of forming a decision may, however, lead to a considerable amount of physical activity in addition to thinking and discussion, for this stage very likely will involve shopping around, looking at and testing different types of products (especially durable goods) and speaking to people that already have the product. For some products, these decisions will be routine and virtually automatic, as in the purchase of most types of groceries. For other types of products, such as houses, automobiles and many large durable goods, a great deal of effort may be involved at this stage and the decision itself may encompass many ramifications.

For the present purposes, it would seem desirable to subcategorize these types of decisions into two components -- decisions relating to whether or not to buy the product, and decisions relating to characteristics of the product. Admittedly, in some instances these decisions will be made simultaneously, especially so for convenience products and routinely purchased items. In other cases, however, as with durable goods, these decisions can be shown to be very distinct, as will be brought out in a later section of this paper.

It is recognized that decisions relating to the characteristics of the product may themselves have many facets, and that the manner in which the decision may be made for one product characteristic (say, brands) may be very different from the manner in which the decision will be made of another product characteristic (say, color of a car).

The execution of these decisions relates to the circumstances surrounding the physical act of making the purchase and the family members that participate in doing so. A number of interesting studies have been done on this subject which will be brought together under this heading.

It should also be noted that the spending behavior may lead to changes in the goals and objectives of the family, as noted in Figure 1. This is still another dynamic aspect of this framework.

4. Saving Behavior. In many ways the central decision under this heading relates to the allocation of available financial resources for a given period between spending and saving, specifically what amount or proportion of these total resources should be allocated to saving and what proportion or amount to spending. For the present purposes, it

seems more useful to consider "saving" and "spending" in dollar terms rather than in physical consumption as used in many analytical studies in economics. From a decision point of view, this definition appears dominant both in the minds of families and in the course of the studies undertaken on this subject.

As noted in Figure 1, in a very general sense the decision to save or to spend is influenced by the available financial resources, by the objectives of the family and by the attitudes of the family members. Other factors are also undoubtedly relevant, though perhaps less important, such as family composition and personal economic circumstances. These and other factors will be introduced in the course of the review of the literature.

Once a decision has been made to save, a number of other decisions have to be made regarding such matters as the forms in which to save, the specific institutions or securities, who will take the responsibility for doing so, when it will be done, where it will be done, etc. These various decisions would seem to be separable into two major classes, one class relating to decisions on what should be done and the other to their execution, such as who will be in charge of the mechanics of actually doing so.

It should also be noted that the various decisions on saving behavior do not necessarily follow after the decision to save has been made. In fact, the decision to save may at times be made simultaneously with the form of saving, since availability of a particular saving opportunity (such as unusually high interest rates) may itself influence how much should be saved. There is little question, however, that these saving decisions

do affect the resources of the family, through asset management, and this is one of the major dynamic aspects of this framework.

5. Asset Management. The management of the financial assets of a family is a set of decisions that deserves separate study. This is especially true if a family has any appreciable amount of assets, in which case this function may necessitate a great deal of expertise and specialization. In principle, these decisions could be subclassified in the same manner as those relating to spending and saving behavior, especially since some of them must necessarily be closely related to saving behavior. Nevertheless, the dearth of studies on decision making in this area suggests that such a classification is needless, and it is therefore not proposed at this time.

II. Modification of the Framework

In the remainder of this paper this simple framework is used to bring together the principal studies on family financial decision-making. The focus is on empirical studies of decision-making, considering in turn what we know about each of the types of financial decisions shown in Figure 1. However, as a result of the dearth of material, the summary of family decision-making on saving behavior and on asset management is combined under a single heading.

To offset the heavy emphasis on empirical studies, and partly to take advantage of this emphasis, a following section provides a more detailed framework for studying family financial decision-making, based on the result brought together in the earlier parts of this paper. This section also attempts to show

briefly how the papers presented at this conference relate to each other and to these more general frameworks.

In addition, as a by-product of this study, an appendix provides a summary of those references encountered in the course of this study relating to the methodology of obtaining information on family financial decision-making. That material is not meant to be comprehensive, and the references are relatively few in number, but it is hoped that even in this limited form this information will be of use to those planning further work on the subject.

It should be stressed that throughout this paper, the emphasis is on the roles of the different family members in influencing or in carrying out different types of financial decisions. In the course of this review, use will be made of the extensive literature on family role behavior, though it does not seem necessary, or useful, to review this literature in this paper.

III. Financial Decisions: An Overview

Despite its basic importance for the understanding of consumer financial behavior, the role of financial planning within the family -- in the sense of explicit consideration to the allocation of expected financial resources between saving and spending -- seems to have received very little attention in empirical work, and would seem to be a prime area for future research. This is all the more odd because from a normative point of view a great deal of attention has been given to this question, and virtually every text on home economics and on consumer home management discusses the desirability of a financial plan,

its components, and its relation to family goals.* Hazel Kyrk infers that family financial planning, and budgeting, are more important, and likely to be more frequent, among newly formed families and among lower-income families. As the expenditure pattern becomes more standardized and as income increases, financial planning and budgeting are asserted to be less frequent.**

From an empirical point of view, attention has been given to the meaning and nature of financial security, which is best discussed in connection with the studies of saving behavior, but little to what types of families make financial plans and the nature of these plans. The studies that have been made are essentially in the home economics literature, tend to focus on farm families, and ascertain very general information about financial planning as part of a large study. Illustrative of these is a personal-interview study with both husbands and wives among 60 cooperating young rural couples in New York. In this study, Wells reported widespread evidence of financial planning among these families with the extent of the planning becoming more complex as the family income, assets and financial obligations increased.† The exact nature of these financial plans is not discussed.

*For example, Kyrk, H., The Family in the American Economy. Chicago: University of Chicago Press, 1953, Chapter 16; also, Morgan, J.N., Consumer Economics. Englewood Cliffs, N.J.: Prentice-Hall, 1955, Chapter 4.

** Ibid., pp. 323-324.

†Wells, H.L., "Financial Management Practices of Young Families", Journal of Home Economics, Vol. 51, June 1959, pp. 439-443.

In another study, Honey and Smith note that 58 percent of students in home economics courses at Pennsylvania State University reported, again as part of a larger questionnaire, that their parents had a financial plan.* Again, they do not indicate the nature of these financial plans. Moreover, in view of the very special nature of this sample, there can be no basis for making any inferences regarding the extent of financial planning in the general population.

In another study, the existence of financial planning was reported among both middle and lower class families in Michigan, with the observation that housewives seemed to have more influence on the plan in the case of the lower class families. The sample, however, was very small, only 50 families, and it is not clear what was meant by a financial plan.**

That financial planning can play an important role in family economic welfare is suggested by two other studies from home economics. In one case, Honey reports in connection with a study of financial management by 426 farm families in Pennsylvania that a major source of dissatisfaction was lack of a financial plan where one did not exist.† In the other case, Freeman and Due

* Honey, R.R. and W.M. Smith, Jr., Family Financial Management Experiences, as reported by 179 College Students. Pennsylvania State College, School of Home Economics, Research Publications 113, 1952.

** Bortel, D.G. van and I.H. Gross, Comparison of Home Management in Two Socio-economic Groups. East Lansing: Michigan State College Agriculture Experiment Station Bulletin 240, 1952.

† Honey, R.R., Family Financial Management Experiences in Pennsylvania State University, College of Home Economics, Research Publication 141, 1957.

show from a case study of two farm families over 23 years how the different goals of these families led to very different expenditure and saving patterns over the years.*

1. Family Roles in Financial Decisions

In contrast to the role of financial planning, the role of different family members in making financial decisions has been investigated fairly extensively, principally by home economists and sociologists, in different ways and often with conflicting results.

In one of the more interesting studies, Schomaker, following a scheme originally advanced by Herbert Simon, classifies the financial decision into five steps -- problem recognition, observation and acquisition of information, deliberation, choice and action.** Studying the role of 100 farmers and their wives at each of these stages, she finds that financial problems were recognized half the time as a result of necessity and most of the rest of the time as a result of a growing need, with the husband mainly responsible for giving voice to this recognition. Information as a basis for solving the problem was sought from a variety of sources, but primarily from people outside of the family and from magazines. More than two-thirds of the families discussed the problem among themselves and approximately three-fourths considered two or more alternative solutions. Both

* Freeman, R.C. and J.M. Due, "Influences of Goals on Family Financial Management", Journal of Home Economics, Vol. 53, June 1961, pp. 448-452.

** Schomaker, P.K., Financial Decision-Making as Reported by One Hundred Farm Families in Michigan. Unpublished Ph.D. thesis, Michigan State University, 1961.

practices as well as information seeking were more frequent among younger and better educated families.

As to who made the final decision, it was reported to be the husband nearly sixty percent of the time and jointly about one-third of the time, the latter percentage being higher for families with younger heads. Age of head and education, incidentally, were also prime determinants of a tendency of a family to follow the five-step decision-making process.

In a further analysis, it was found that satisfactory as distinct from unsatisfactory financial decisions were more likely to be characterized by more frequent consultation of sources of information and of people outside the family, more discussion of the problem within the family, and consideration of a larger number of alternative solutions.*

On the other hand, the explicit use of decision-making was not found to be overly frequent in another study of farm families in New York State. In this study only one-third of the sample of farm families were found to use consciously the various decision-making steps such as those outlined by Schomaker.**

Like many other studies of this type, the sample was highly specialized, and was further restricted to couples where both the husband and wife were willing to cooperate, so that the results are best treated as hypotheses for future study.

* Schomaker, P.K. and A.C. Thorpe, "Financial Decision-Making as Reported by Farm Families in Michigan", Quarterly Bulletin, Michigan State University, Vol. 46, November 1963.

** Dix, L.C., Decision-Making in the Farm Family, unpublished Master's thesis, Cornell University, 1957.

A very different view of decision making is provided in one of the Detroit area studies, from which the authors, Blood and Wolfe, generalized: "The economic function of the family is therefore primarily the husband's function. Even when the wife works, the reasons why she works and the relative permanence of her work reflects his career ... Her job uniquely is to bear the children..."* This was one of the very few studies based on a broad probability-type sample, covering urban and suburban as well as farm families in the Detroit area.

A similar view is encountered in a factor analysis of replies obtained from husbands and wives in a more general study of their roles and relation to each other. In this study, Thorp finds a factor that reflects the traditional division of influence, with the husband having the main responsibility for earning money and the wife for running the household and raising children.** However, the questions used in the study were very general and little attention was given to individual types of financial decisions.

Whether for this or other reasons, these views differ substantially from the findings of other studies (and would also not exactly make the authors popular among women's lib groups). Indeed, about the only supporting evidence is the finding of various

* Blood, R. and D.M. Wolfe, Husbands and Wives and America: Dynamics of Married Life. Glencoe, Illinois: Free Press, 1963, p. 114.

** Thorp, R.C., "Dimensions of Marriage Roles", Marriage and Family Living, Vol. 25, Nov. 1963, pp. 389-404.

home economists projects that the wife makes most of the household decisions, that is, decisions that pertain purely to household activities and to shopping.*

On the other side of the fence, Wilkening finds that joint involvement in five types of farm and home financial decisions among 614 Wisconsin farmers and their wives characterized nearly 40 percent of those with farm incomes under \$6,000 and over \$9,000, and half of those with incomes in the middle bracket.** Wilkening also found that the wife's involvement decreased as the farm was more commercialized and increased among families with more debt or where the wife was more socially active.

Further evidence that joint decision-making is frequent among farm families was produced in a study by Honey, Britton and Hotchkiss who reported that their interviews with 252 rural Pennsylvania families indicated that wives and husbands generally followed the practice of talking over financial matters and making decisions together.#

There is also some evidence that among younger families at least, wives have substantial influence in financial decisions.

* As an example, see Davis, M.C., Decision-Making in Relation to the Performance of Household Activities in New York State Homes. Unpublished Ph.D. dissertation, Cornell University, 1957. Of these types of decisions, 85 percent were reported as made by the housewife alone.

** Wilkening, E.A., "Joint Decision-Making in Farm Families", American Sociological Review, Vol. 23, April 1958, pp. 187-192.

Honey, R.R., V. Britton and A.S. Hotchkiss, Decision-Making in the Use of Family Financial Resources. Pennsylvania State University, College of Home Economics, Research Publication 163, 1959.

Thus, in one study where undergraduate married couples were observed... while they made the decision on how to spend a hypothetical gift of \$300, the most frequent occurrence (56 percent of the time) was for both husband and wife to have about equal degrees of influence.* Although this is somewhat of an artificial situation (though the author attempts to demonstrate the realistic nature of the experiment), it is especially interesting to note that, based on prior reports by the couples, the husbands generally had less influence than had been anticipated by either member.

As we shall see later, joint decision-making characterizes many different aspects of family financial behavior, though to different extents varying with the nature of the problem. It is a phenomenon of interest not only in a financial sense but has been studied in its broader aspects by family sociologists in some detail. Among other things, these studies seem to show rather conclusively that joint decision-making is likely to be associated with satisfaction in marriage, especially when age and education of the couple are held constant.**

IV. Money Management

To modify a framework suggested by Kyrk[#] five alternative procedures would seem to exist from the point of view of the

* Kenkel, W.F., "Influence Differentiation in Family Decision-Making", Sociology and Social Research, Vol. 42, September-October 1957, pp. 18-25.

** A number of these studies is summarized in Farber, Bernard, Family Organization and Interaction. San Francisco: Chandler Publishing Co., 1964, pp. 299-300.

[#] Kyrk, H., op.cit., Chapter 16.

allocation of the money management function between husbands and wives.*

- a. The husband doles out the funds to the wife as needed, and he usually pays the bills.
- b. The husband gives the wife a regular allowance which she uses for specific purposes and he uses the rest.
- c. The wife receives the entire income either directly or by the husband turning his pay over to her, she gives him an allowance and uses the rest.
- d. The wife receives the entire income, doles out funds to the husband as needed and she usually pays the bills.
- e. The husband and wife decide jointly at the start (or end) of every pay period how the money should be spent and each then assumes a specific task.

The first two alternatives represent a form of patriarchal system and the second two a form of matriarchal system.

The available evidence indicates that, as might be expected, the patriarchal system has dominated in the past, especially among older people. In a study in England, for example, Young found that wives generally did not know what their husbands earned.** Indeed, among people aged 65 and over in a working class in East London, Townsend found that not only did few wives (7 of 45) know what their

*The entire focus on this subject in the literature seems to have been on husband-wife relationships. The cases where there may be only one such member with children or other relatives present does not seem to have been considered and would seem to be another area for future study.

**Young, M., "Distribution of Income Within the Family," British Journal of Sociology, Vol. 3, December 1952, pp. 305-321.

husbands earned, but "many did not think they had a right to know".* The usual procedure among those families was a clear division of labor along the lines of alternative (b), with the wife having a preset allowance (and with no excesses allowed!) and also having the responsibility of paying the bills. When the husband retired, however, and if he were overtaken by illness, Townsend notes that the wife then usually became the major financial influence and the procedure was modified so that each of them had their own allowance.

For the United States, such evidence as is available suggests that decisions regarding money management are more likely to be made on a joint basis while the accounting and record-keeping is more likely to be looked after by the wife. Thus, in her study of 60 young rural couples in New York State, Wells found that responsibilities tended to be shared on a joint basis for families married fairly recently and that these responsibilities tended to be shifted to individual members as the number of years married increased.** Similarly, the frequency of account keeping and budgeting tended to decline as the number of years married increased.

In another study of farm husbands and wives, this time in Wisconsin, Wilkening and Bharadwaj state that "while the division of labor between farm and household was expected, the division

*Townsend, Peter, The Family Life of Old People. London: Routledge & Kegan, Paul, 1961, p. 68.

**Wells, H.L., op.cit.

of labor within the family area between husband wife suggests that responsibility for family tasks follows the interest and availability of the spouses rather than following traditional role expectations that the women ought to be responsible for all household tasks."* In particular, the investigators found that the wives tended to take a very active role in money management and generally looked after keeping track of money, paying bills and keeping farm records.

An interesting relationship between account keeping and budgeting is suggested by Wells in her study.** She notes that among families that budgeted, more wives than husbands kept account records, while among families that did not prepare any budgets account records were kept more often either by both husband and wife or by the husband only. Although the sample was very small (60 families), there is some indication that joint participation in the financial planning process was more likely to lead to sharing of knowledge on the family finances and, as a result, to the wife taking charge of the financial records. At the same time, it should be noted that this sample was restricted to cooperative younger families where both husband and wife were willing to be interviewed. In a broader coverage study made about the same time, for example, Morse found that only 51

* Wilkening, E.A. and Bharadwaj, L., "Dimensions of Aspirations, Work Roles and Decision-Making of Farm Husbands and Wives in Wisconsin", Journal of Marriage and the Family, Vol. 29, November 1967, p. 711.

** Wells, H.L., op.cit.

percent of a sample of 527 rural families in Kansas were keeping account records, the wives keeping these records in two-thirds of the families and the husbands in the rest.*

Of three studies that provided information on money management in urban areas, two were conducted at Michigan and these yielded roughly similar results. The questions related to keeping track of money and bills, or of paying bills, and the findings on which member of the couple has the main influence are as follows:

<u>Study</u> ^{**}	<u>Husband</u>	<u>Joint</u>	<u>Wife</u>	<u>Other</u>
Detroit Area Study, 1955 (Sharp and Mott)	26%	34	40	--
Nationwide, 1954 (Wolgast)	27%	28	40	5
Peoria-Decatur, 1968 (Ferber and Nicosia)	36%	29	34	1

In other words, the wife seemed to carry this responsibility most of the time but in a substantial number of families the responsibility was either shared or looked after by the husband. Sharp and Mott also note that the husband is likely to carry this responsibility more often and the wife less often among higher income families. The Peoria-Decatur panel of young

*Morse, R.L.D., "Family Financial Security: Survey of Kansas Rural Families", Journal of Home Economics, Vol. 54, October 1962, pp. 711-713.

**The first two were cited in previous footnotes. It should be noted that the Sharp and Mott question asked who had more of the influence rather than the Wolgast approach of asked for who made the decision. The third is from unpublished data of a panel of young married couples in Decatur and Peoria, Illinois, interviewed about every six months since the Fall of 1968 and relates to "who usually looks after paying bills?".

married couples, however, suggests that husbands generally carried a larger share of this burden than wives. Whether this difference is due to the nature of the sample, location or different time period can not be ascertained.

The extent to which other family members participate in these tasks is hardly noted in the literature. Indeed, the focus of virtually all these other studies was such as to exclude the possibility of obtaining such information. Of the studies cited in this section, only Wolgast apparently left provision for other family members to have influence on various decisions, and she finds, in fact, that in 5 percent of the families members other than the wife or the husband were responsible for keeping track of money and paying bills. An interesting corroboration of this percentage is provided by the study of Honey and Smith based on reports obtained from home economics students, where 5 percent of these students reported that they had kept expense records while at home.*

V. Spending Decisions

In accordance with the outline presented earlier for this section, attention will be given first to family roles in decisions relating to the purchase of products, primarily to husband-wife roles, and second to family roles in decisions related to product attributes, particularly to the brand. It should be stressed that this section makes no pretense at covering the extensive literature, mainly from marketing and home economics,

*Honey and Smith, op.cit.

dealing with the determinants of buyer behavior and the means of forecasting such behavior. Besides being outside the scope of this paper, that literature has been reviewed in a number of other sources.* Variables from these more general reviews are brought in when they relate to family decision-making in regard to spending behavior.

1. Marital Roles in Spending Behavior

At least two general hypotheses have been advanced to explain the role of husband and wife in influencing spending in different families. Bott suggested that the extent to which families do things jointly, such as spending money, depends on the "connectedness" of their social network, that is, whether husband and wife have the same friends and move in the same circles.** Connectedness is said to be more prevalent if the family has low mobility, lives in a fairly homogeneous neighborhood, and the husband is in the working (blue collar) class.

Taking a somewhat different approach, Komarovsky advances the idea, based on examination of various empirical studies, that

* See, for example, Britt, S.H., ed., Consumer Behavior in Theory and Action. New York: John Wiley & Sons, 1970; Arndt, Johan, ed., Insights into Consumer Behavior. Boston: Allyn & Bacon, 1968; Engel, J.F., D.T. Kollat and R.D. Blackwell, Consumer Behavior. New York: Holt, Rinehart & Winston, 1968; Sheth, J.N., "A Review of Buyer Behavior", Management Science, Vol. 13, August 1967, pp. B718-B757; Burk, M.C., "Survey of Interpretations of Consumer Behavior by Social Scientists in the Postwar Period", Journal of Farm Economics, Vol. 49, February 1967, pp. 1-31; May, F.E., "Buyer Behavior: Some Research Findings", Journal of Business, Vol. 38, October 1965, pp. 379-396.

** Bott, E., "Urban Families: Conjugal Roles and Social Networks", Human Relations, Vol. 8, 1955, pp. 345-384.

"there is greater autonomy with regard to expenditures at the bottom and at the top of the socioeconomic hierarchy than among the middle classes".* The studies that she examined tend to support the fact that the wife in the lower socioeconomic classes seems to have greater influence in decision-making with regard to expenditures. In addition, in all social classes she finds a higher rate of joint decision-making on spending among young couples.

A roughly similar point of view is taken by Barton, who argues that, based on marketing research observations, housewives 45 years of age and over tend to have accumulated sufficient experience so that they can act essentially as a professional purchasing agent for the family, even with regard to men's clothes and furnishings; and they know the needs of their family well enough so that consultation is much less likely to be needed.**

The empirical studies of these questions have taken many different forms and, not surprisingly, yield results that are not always compatible. In one of the earlier studies of this subject, based on the replies of marketing students in seven universities about their parents' behavior, Converse and Crawford estimated the percent of purchases made by various family members as well as the percent of purchases influenced by women,

*Komarovsky, Mirra, "Class Differences in Family Decision-Making in Expenditures", in N.N. Foote, ed., Household Decision-Making. New York: NYU Press, 1961, p. 260.

**Barton, S.G., "The Life Cycle and Buying Patterns", in L.H. Clark, ed., The Life Cycle and Consumer Behavior. New York: NYU Press, 1955, pp. 53-57.

men and children, by product category.* They find that men make most purchases of their own clothing and toilet articles, hardware, cars and gas and oil; women of their clothing and children's clothing and of home furnishings; while children are important only with regard to their own clothing purchases. They also find that joint purchases are in the majority only for furniture and that joint shopping and joint influence tend to be lower among low-income families.

Another study based on interviews with parents corroborates some of the Converse and Crawford findings in that furniture and household equipment purchases were planned on a joint basis approximately 75 percent of the time and that children usually participated with the parents only in buying their (children's) clothing.** In her study, however, Wolgast noted that joint decisions on the purchase of household goods were reported only 54 percent of the time, while Sharp and Mott reported joint decisions on a major item such as the selection of a house or an apartment only 58 percent of the time. It will be recalled, however, that the data in the latter study were obtained from the wife in every case.

On the basis of these various studies, one may infer that a tendency toward increased joint decision-making with regard to purchases is likely to characterize younger families, those

* Converse, P.D. and C.M. Crawford, "Family Buying: Who Does It? Who Influences It?," Current Economic Comment, Vol. 11, November 1949, pp. 38-50.

** Van Syckle, Carla, Practices Followed by Consumers in Buying "Large Expenditure" Items of Clothing, Furniture and Equipment. East Lansing: Michigan State Agricultural Experiment Station Bulletin 222, 1951.

families who have been married a very short time, middle-class families, and also those purchases where a substantial outlay relative to family income may be involved. In addition, Granbois hypothesizes that joint participation in the purchase decision process "will vary directly with the degree in which they (family members) directly engage in use of the product" and is more likely "the more nearly equal the contribution of resources such as income, education, and social participation by husbands and wives...".*

Perhaps the single purchase decision studied most often with regard to husband-wife roles is the auto purchase, and here too the findings are somewhat different. In her study, Wolgast reported that the timing of the car purchase was set by the husband in more than half the families, and jointly in another 28 percent of the cases. Sharp and Mott report that in the purchase of the family car the husband had the greater influence 70 percent of the time and that the decision was made jointly 25 percent of the time, with the dominance of the husband becoming more frequent as income rose.

On the other hand, Davis, in a study of 211 French-speaking Catholic families in and around Quebec City, found that the relative influence in seven different types of auto purchase decisions (such as when, where, how much, make, etc.) varied substantially within the family, with the main influence being

* Granbois, D.H., "Decision Processes for Major Durable Goods", in Fisk, George, ed., New Essays on Marketing Theory. Boston: Allyn & Bacon, 1971, pp. 172-205. The quotations are from pages 196-197.

exerted either by the husband or the husband and wife together.*

A similar finding was reported by Jaffe and Senft. On the basis of a study of ten different products conducted by personal interviews with one or more members of 300 middle income households in Hartford, Cleveland and Seattle, they find that husband-wife roles vary substantially depending partly on the product and partly on the stage in the consumption process.** They also found, as had Converse and Crawford, that the husband was more important than originally thought in the selection and the purchase of many of these products.

Two other very different studies tend to support the hypothesis that husband and wife roles vary substantially with the particular type of decision, and that many different decisions may underly a particular purchase. In one such case, Cahalan reports on a study conducted by interviewing husbands and wives initially together to obtain facts on purchases, and later interviewing them separately for their opinions. While the wife was more influential in deciding whether to consider buying major appliances and in thinking about spending money, the husband

* Davis, H.L., "Determinants of Marital Roles in Consumer Purchase Decisions", unpublished working paper, Graduate School of Business, University of Chicago, October 1970.

** Jaffe, L.J. and H. Senft, "The Roles of Husbands and Wives in Purchasing Decisions", in Adler, Lee and Irvin Crespi, eds., Attitude Research at Sea. Chicago: American Marketing Association, 1966, pp. 95-110. The stages in the consumption process used were information gathering, latent (initiator) stage, purchase, use, consolidation.

seemed to be more influential in the purchase decision and in whether to consider buying a new car.* He also finds that husbands in high status families tend to be more frequently dominant than husbands in low status families.

In the other study, which relates to 12 different aspects of car and furniture purchase decisions of 100 families in Chicago suburbs, Harry Davis finds that the decision roles in the purchase of a car are not related to decision roles in the purchase of furniture.** Moreover, for the same family, Davis advances the rather surprising hypothesis that the relative influence in "product selection" (model, make, color) was unrelated to the relative influence of that member in "allocation" or "scheduling" (how much or when to buy).

This result may not be too surprising in view of the growing literature in the consumer marketing area to the effect that people who are opinion leaders in one sense are not necessarily opinion leaders in another sense.† This is true even though it also seems to be true that opinion leaders in accepting innovations relating to household goods are more likely to be younger people, well-educated, married with children, and with higher

* Cahalan, Don, "Comments", in N.N. Foote, ed., Household Decision-Making. New York: NYU Press, 1961, pp. 225-228.

** Davis, H.L., "Dimensions of Marital Roles in Consumer Decision-Making", Journal of Marketing Research, Vol. 7, May 1970, pp. 168-177.

† King, C.W. and J.L. Summers, "Overlap of Opinion Leadership across Consumer Product Categories", Journal of Marketing Research, Vol. 7, February 1970, pp. 43-50.

incomes.* The fact remains that people who tend to take the initiative and tend to be innovative with regard to one aspect of purchase behavior may not be equally aggressive on other aspects.

2. The Effect of Impulse Purchases

To the extent that products are bought without any prior plan, or on "impulse", family decision-making is likely to be at a minimum. Hence, although this subject is on the periphery of the present paper it is nevertheless relevant and deserves some consideration here.

A study of these types of purchases can be considered in two respects, first with regard to the frequency with which purchases are made that are "unplanned", and second with regard to those goods made on "impulse". In the former case, the purchase possibility may have been discussed within the family and may have been considered by the purchaser but not in any overt sense; in the latter case, the purchase was presumably not considered and was only consummated as the result of a special occasion or opportunity leading to the recognition of a need or the arousal of a latent desire.

Two earlier studies of this question found that impulse purchases were quite frequent even for major items. Thus, Katona and Mueller in analyzing data from a random sample of

* Mueller, Eva, "Desire for Innovations in Household Goods", in L.H. Clark, ed., Consumer Behavior: Research on Consumer Reactions. New York: Harper & Brothers, 1958, pp. 13-38.

1,000 U.S. families found that about one-quarter of the purchases of four major household durables were made with "almost a complete lack of deliberation".* The primary reasons for these purchases were urgent need or a special deal. In the case of men's sport shirts, impulse buying seems to have been even more frequent.

In another study about the same time, based on panel data from 150 families in Decatur, Illinois, Ferber found that about one-fifth of the durable goods and clothing purchases made by the panel families were on impulse -- unplanned and postponable.** Both studies found that purchase planning, and highly deliberate decision-making, were most common among the better educated, the middle-income groups, younger families, and professional and managerial families.

That many purchases of durable goods were made without any particular plan and on the basis of need had also been demonstrated in a study of the Consumers Union membership by Juster.† Indeed, until the advent of subjective probabilities in the use of ascertaining purchase plans, the largest proportion of purchases of durable goods were accounted for by people who had not reported any plan.‡ This does not mean that families were necessarily

* Katona, George and Eva Mueller, "A study of Purchase Decisions", in L.H. Clark, ed., Consumer Behavior: The Dynamics of Consumer Reaction, pp. 30-87.

** Ferber, Robert, Factors Influencing Durable Goods Purchases. Urbana: University of Illinois Bureau of Economic and Business Research, 1955.

† Juster, F.T., Anticipations and Purchases. Princeton: Princeton University Press, 1964.

‡ Ibid., pp. 24-26.

making these purchases without any discussions but rather that the survey techniques were not obtaining the most relevant information plus the possibility that many purchases were made on the basis of immediate urgency, in which case family discussion might be minimal. Granbois suggests the interesting hypothesis that, "households are more apt to form purchase plans for goods that they do not already have than for goods they own but intend to replace whenever necessary".* In other words, the replacement of goods already on hand is more likely to be left to need and urgency than to deliberate planning.

Satisfaction with a product is likely to be another variable serving to reduce family discussion and planning. In a recent study Newman and Staelin find that the most important variable in distinguishing between decision times in the purchase of a durable good was satisfaction with the old product.** Satisfied users took appreciably less time to make the decision, which also suggests that the amount of discussion within the family was less in those cases.

The amount of the purchase is also likely to affect family planning, small purchases tending to be purchased with a much shorter time horizon, and very likely with less discussion. Thus, Pratt, in his study on the average length of the purchase planning period based on data from a General Electric panel,

* Granbois, op. cit., p. 183.

** Newman, J.W. and R. Staelin, "Multivariate Analysis Differences in Buyer Decision Time", Journal of Marketing Research, Vol. 8, May 1971, pp. 192-198.

found the average planning period to vary from one week for small radios to 16 weeks for clothes driers.* In a similar study investigating the circumstances of the purchase of small electrical appliances, Jon Udell found that the planning period for these appliances ranged from 22 percent for one day to 83 percent which were bought within one month.**

Studies of impulse purchases of nondurables have focused primarily on food products or items purchased in supermarkets. As one might expect, such impulse buying, in the sense of purchases not planned at the time of entry into the store, was found to be substantial. West, in a survey of about 5,000 Canadian shoppers found that 37 percent of their total purchases were not planned (not reported to the interviewer) when the shopper entered the store.† The Dupont Company in a similar series of studies in the United States in 1945, 1949, 1954 and 1959 found that the frequency of impulse purchases in supermarkets to be rising over time, from 38 percent in 1945 to 51 percent in 1959.‡ At the same time, the percent of items planned specifically in advance declined from 48 percent in 1945 to 30 percent in 1959.

* Pratt, R.W., Jr., "Consumer Buying Intentions as an Aid in Formulating Marketing Strategy", in King, R.L., ed., Marketing and the New Science of Planning. Chicago: American Marketing Association, 1968 Fall Conference, pp. 296-302.

** Udell, J.G., "Prepurchase Behavior of Buyers of Small Electrical Appliances", Journal of Marketing, Vol. 30, October 1966, pp. 50-52; reprinted in Britt, S.H., ed., Consumer Behavior in Theory and in Action. New York: John Wiley & Sons, 1970, pp. 461-464.

† West, C.J., "Results of a Two-Year Study of Impulse Buying", Journal of Marketing, Vol. 15, January 1951, pp. 362-363.

‡ E.I. Dupont de Nemours & Company, Consumer Buying Habits Studies, 1945, 1949, 1954, 1959.

These findings are in accord with the observed proliferation of items in supermarkets and the increase in efforts of marketing people to put items into racks or in a form where they are easily picked up on the spur of the moment. A more general interpretation of this phenomenon is provided by Stern who argues that impulse buying may be rational behavior, in giving the shopper a chance to adjust to deals and to merchandising opportunities found in the store.* He cites the factors affecting impulse buying are low price, marginal need for the item, mass distribution opportunities, self-service, mass advertising, prominent store display, short product life of many goods, small size or light weight, and ease of storage. To the extent that impulse buying is increasing, family deliberation is likely to be decreasing.

3. Family Roles in Brand Choice

Of the huge literature in the marketing field dealing with the determinants of brand choice, very little has been concerned with the roles of different family members in this choice. To many marketing people, brand choice is a matter of habit formation which, once established, is likely to continue almost indefinitely. Thus, in one very well known marketing study, Kuehn notes that buying decisions are a learning process with more search behavior taking place when there is more felt uncertainty about the product, and that the probability of buying the same

* Stern, H., "The Significance of Impulse Buying Today", Journal of Marketing, Vol. 26, April 1962, pp. 59-62.

brand on two consecutive purchases tends to increase as the interval between purchases decreases (at least for frozen orange juice).^{*} Other models take an even more sanguine view of brand choice determination, such as the Bernoulli process model (constant probabilities of brand choice), but even the more sophisticated Markov process models or the probability diffusion models treat the family as an entity.^{**} If anything, the focus in marketing has been on newly formed households and to induce them to try a product. Thus, "...younger housewives are easier to educate to an awareness of product and brand; it is easier to get across to the younger housewives the reasons why they should try or buy it; and younger housewives are less fixed in their buying habits and brand loyalty, and will be more inclined to change their buying pattern in response to advertising."[#] (p.65)

The main focus on family decision-making with regard to brand choice has been on automobiles. In one relatively early study, it was concluded that the husband decides what make of car to buy in 61 percent of the families and the husband and wife together in 39 percent.^{##} George Brown cites two other studies

* Kuehn, A.A., "Consumer Brand Choice -- A Learning Process", in Frank, R.E., A.A. Kuehn and W.F. Massy, eds., Quantitative Techniques in Marketing Analysis. Homewood, Illinois: Richard D. Irwin, Inc., 1962.

** For an excellent review of these models and for much that is known about the subject from empirical studies, see Massy, W.F., D.B. Montgomery and D.G. Morrison, Stochastic Models of Buying Behavior. Cambridge, Mass.: MIT Press, 1970.

[#] Miller, D.L., "The Life Cycle and the Impact of Advertising", in Clark, L.H., ed., The Life Cycle and Consumer Behavior. New York: NYU Press, 1955.

^{##} Fawcett Publications, Male versus Female Influence on the Purchase of Selected Products. New York, 1958.

supporting his assertion that the husband is the primary decision-maker in new car purchases, giving data from a Starch Study for True Magazine and from a J. Walter Thompson panel indicating that on the decision on the model the husband invariably either did so on his own or in conjunction with the wife.*

More recent studies suggest, however, that family interactions may well influence brand choice. Thus, Coulson finds in a pilot study that wives' awareness of brand preferences of other family members varied greatly with the product class.** Awareness was highest when the brand name was clearly visible in use, such as for beer or cigarettes, and was less when the product was altered just prior to use.

In two other studies involving husband-wife interviews, Davis and Silk report that housewives frequently bought the brands that the husbands had requested.# In one survey over half the housewives reported doing so for convenience products, while in another survey "the percentage of wives who reported that their husbands' brand comments were very important to them

* Brown, G.H., "The Automobile Buying Decision Within the Family", in N. MacFoote, ed., Household Decision-Making. New York: NYU Press, 1961, pp. 193-199. It might be noted that True Magazine focuses entirely on a male audience, at least at the time the study was made.

** Coulson, J.S., "Buying Decisions within the Family and the Consumer-Brand Relationship", in Newman, J.W., ed., On Knowing the Consumer. New York: John Wiley & Sons, 1966, pp. 59-66.

Davis, H.L. and Alvin Silk, "Small Group Theory", in Ferber, Robert, ed., Handbook of Marketing Research. New York: McGraw-Hill Book Company, forthcoming.

in making brand decisions ranged from 26 percent for peanut butter to 98 percent for dog food."* Also of interest is their finding that the husbands in their interviews consistently underestimated the importance of their comments on brands to the wives.

4. Influence of Children

The studies of Converse and Crawford and of Van Syckle have already been cited to the effect that children seem to influence only the purchase of their own clothing. The relatively few other studies on the influence of children on family spending decisions yield similar results. Thus, Brown in his study on automobile buying decisions reported that parents claimed that their children, even the teenagers, had little influence on the make of car purchased. Perhaps even more surprising is a study by Berey and Pollay in which they ascertained cereal brand preferences of 48 children in an elementary school and compared them with the cereals that their mothers had purchased and were in the house. A negative correlation was found between the assertiveness of the child (based on teacher ratings) and the tendency of the mother to buy the preferred cereal.** The explanation advanced by the authors of this odd finding was that the mothers seemed to be more concerned with buying products that would contribute to the health of the child than with satisfying the child's whims. (The sample was from a middle to upper-middle income segment.)

* Ibid.

** Berey, L.A. and R.W. Pollay, "The Influencing Role of the Child in Family Decision-Making", Journal of Marketing Research, Vol. 5, February 1968, pp. 70-71.

On the other hand, an advertising research study by Munn, based on mail questionnaires to parents with small children, stated that nine of ten parents reported they were influenced by their children in the choice of specific branded products.* In addition, substantial proportions reported products being used in the home of the type advertised in children's television programs to which their children had apparently been exposed (based on the choice of the sampling frame). However, the nature of the study, a mail questionnaire, the lack of any control group, and the low rate of response, 44 percent, casts doubt on the significance of these findings.

Some attention has also been given to decision-making by children, especially by teenagers. In one such study, Gibbs showed that teenager purchases of grooming, clothing and recreation items in a Georgia high school were mostly planned, although many girls' grooming items were still purchased on the basis of impulse.** It does not seem necessary to delve into this literature here.† Especially pertinent, however, are the

* Munn, Mark, "The Effect on Parental Buying Habits of Children Exposed to Children's Television Programs", Journal of Broadcasting, Vol. 2, Summer 1968, pp. 253-258; reprinted in Holloway, R.J., R.A. Mittelstaedt, M. Vankatesan, eds., Consumer Behavior, Contemporary Research in Action. Boston: Houghton Mifflin Company, 1971, pp. 267-271.

** Gibbs, M., "Decision-Making Procedures by Young Consumers", Journal of Home Economics, Vol. 55, May 1963, pp. 359-360.

† From the point of view of spending and saving behavior, the study by R.R. Cateora is especially pertinent, namely, An Analysis of the Teenage Market. Austin: University of Texas Bureau of Business Reserach, 1961.

findings of one study that spending and saving habits of adolescent siblings show only low correlations with each other as well as between those of the children and of the mothers.*

5. Role of Information and Reference Groups

Both the search for information and the use of reference groups are bound to influence substantially family decision-making. An attempt is made in this subsection, therefore, to indicate some of the more pertinent studies in this area. Unlike other topics treated in this paper, extensive material is available on this subject and is summarized from different points of view in the general references listed at the beginning of this section.** For this purpose, it seems desirable to segment these studies into those dealing primarily with reference groups and those dealing primarily with the role of information.

Reference Groups. The role of reference groups in influencing consumer spending and saving behavior was brought out over 20 years ago in two well known and very different studies. by Katz and Lazarsfeld in sociology[#] and by Duesenberry in economics.^{##} Katz and Lazarsfeld placed the main emphasis on the

* Phelan, G.K. and J.D. Schvaneveldt, "Spending and Saving Patterns of Adolescent Siblings", Journal of Home Economics, Vol. 61, February 1969, pp. 104-109.

** See the references in the footnote on Page 24.

[#] Katz, Elihu and P.F. Lazarsfeld, Personal Influence. Glencoe, Illinois: The Free Press, 1955.

^{##} Duesenberry, James, Income Savings and the Theory of Consumer Demand. Cambridge: Harvard University Press, 1949. A very similar exposition though from a more macro point of view appeared about the same time by Franco Modigliani, "Fluctuations in the Saving-Income Ratio: A Problem in Economic Forecasting", National Bureau of Economic Research Studies in Income and Wealth, Vol. 11, 1949, pp. 371-443.

influence of friends and relatives on purchasing behavior while Duesenberry focused more on saving behavior. In the latter connection, virtually no other studies seem to have been made of the influence of reference groups on family saving behavior. One exception is that in her study, Schomaker reported that wide use was made of consultative sources in the financial decisions made by her sample families. In particular, people outside of the family were consulted 88 percent of the time, relatives 38 percent of the time, and "specialists" 22 percent of the time; all these proportions tended to be higher for younger families and for better educated families.* Indeed, she reports that the main influence on the decisions seem to have been the information obtained from these reference groups.

On the spending side, the well known study by William Whyte seems to be confirmed in a number of other products and ways. In his study, it will be recalled, the ownership of window air conditioners was highly clustered in Philadelphia in manner to suggest that it was influenced by ownership of the same product by neighbors.** A very similar finding was obtained by Kurt Lewin in an experiment with changing the diets of housewives. He found that the housewives tended to be much more cooperative when diet

* Schomaker, P.K., Financial Decision-Making as Reported by 100 Farm Families in Michigan, op. cit.

** Whyte, W.H., Jr., "The Web of Word of Mouth", Fortune, November 1954; reprinted in Clark, L.H., ed., The Life Cycle and Consumer Behavior. New York: NYU Press, 1955, pp. 113-122.

changes were suggested in discussion groups than when the same changes were suggested in either lectures or in personal conversations.*

In a somewhat later study, reference group influence was found to be high in housewives' brand selection when the product was socially conspicuous, such as beer or cigarettes, but such influence was found to be low when the product was not conspicuous.** Udell also reported in his study of small appliance purchases that the sample members reported discussion with friends, relatives and neighbors as most influential in their decision to purchase.#

Still another study in a very different field showed that in their choice of a physician and of medical services, newcomers to an area seemed to rely very heavily on friends, neighbors or recent acquaintances in the same socioeconomic class, especially if the newcomers were younger families with children.##

* Lewin, Kurt, "Group Decision and Social Change", in Newcomb, Hartley, et al, eds., Readings in Social Psychology. New York: Henry Holt & Company, 1947, pp. 330-344.

** Bourne, F.S., "Group Influence in Marketing and Public Relations", in Likert, Rensis and S.P. Hayes, eds., Some Applications of Behavioral Research. Paris, France: UNESCO, 1957,

Udell, J.G., op. cit.

Feldman, S.P. and M.C. Spencer, "The Effect of Personal Influence in the Selection of Consumer Services", in Holloway, Mittelstaedt, Vankatesan, eds., op. cit., pp. 247-257.

Perhaps one of the more striking instances of the use of a reference group is in a study by Bell who found in interviews with buyers of new Chevrolets that many of them tended to use "purchase pals" in making their purchase.* In other words, many of these people, especially those that had neither very low self-confidence or very high self-confidence with regard to car buying would bring along a friend, neighbor or relative to assist in making the car purchase decision.

Role of Information. The extent to which information is sought and its role in influencing purchasing behavior has been studied extensively in the marketing literature, so much so that entire books have been devoted to the subject.** Based on studies at Harvard, Cox suggests that "the nature and amount of risk will define consumer information needs" (Page 613). In terms of economics, Farley advances the interesting hypothesis that the amount of search for information is a function of the expected gain relative to the cost of obtaining the information.# Hence, he infers that purchasers of large quantities of a particular product will search for more information to obtain lower prices and that a more expensive item is itself likely to occasion more search for information, other things equal.

* Bell, G.D., "Self-Confidence, Persuasibility and Cognitive Dissonance among Automobile Buyers", in Cox, D.F., Risk-Taking and Information Handling in Consumer Behavior. Boston: Graduate School of Business, Harvard University, 1967.

** As an example, see, Cox, D.F., ed., Risk-Taking and Information Handling in Consumer Behavior. Boston: Graduate School of Business, Harvard University, 1967.

Farley, J.U., "'Brand Loyalty' and the Economics of Information", Journal of Business, Vol. 27, October 1964, pp. 370-381.

A principal source of research on information is with regard to the acceptance of new products, and it is here that information can be shown to interact with the role of reference groups in family decision-making. Perhaps the best manifestation of this relationship is the two-step flow hypothesis on acceptance of new products, namely, the initial flow of information from impersonal sources to opinion leaders, and the derived effect of opinion leaders influencing their friends, neighbors and acquaintances by means of word-of-mouth. This hypothesis was originally formulated in a voter study,^{*} and was substantiated in a later study by Johan Arndt in an experiment on acceptance of a new food product by married students.^{**}

Various other studies have indicated that information plays a key role in the adoption of new products.[#] In particular, these studies find that the use of the mass media seems to be especially high at the awareness stage, with personal influence being of very great importance in influencing the purchase decision. As might be expected, those who are most likely to seek

^{*} Lazarsfeld, P.F., B. Berelson and H. Gaudet, The People's Choice. New York: Columbia University Press, 1948.

^{**} Arndt, Johan, "A Test of the Two-Step Flow in Diffusion of a New Product", Journalism Quarterly, Vol. 45, Autumn 1968, pp. 457-465; reprinted in Holloway, Mittelstaedt, and Venkatesan, op. cit., pp. 235-246.

[#] For example, see Beal, G.M. and E.M. Rogers, "Information Sources in the Adoption Process of New Fabrics", Journal of Home Economics, Vol. 49, 1957, pp. 630-634; Mason, R.G., "The Use of Information Sources in the Process of Adoption", Rural Sociology, Vol. 29, March 1964, pp. 40-52.

information and seek information to the greatest extent are younger people, the better educated and those with higher incomes.* Also, greater knowledge on one type of product seems to be associated with greater knowledge on another product, at least in the case of food and textiles,** though more information does not necessarily lead to greater satisfaction in purchasing.† To what extent the same findings are valid for financial decisions remains to be investigated.

VI. Saving and Investment Decisions

1. Saving Goals

A great deal has appeared in the economics and home economics literature on saving goals and reasons for saving. Thus, reasons for saving were discussed by Keynes in his General Theory, and more recently by George Katona in some of his works.†† The literature is at least as extensive in home economics, though the focus there seems to be primarily on the financial and saving goals of rural families. Thus, for a number of years during the 1950's and the early 1960's a cooperative study was undertaken

* See for example, Roberts, J.B., Sources of Information in Food Buying Decisions. Southern Cooperative Series, Kentucky Agricultural Experiment Station Bulletin 85, 1963.

** Henell, Olaf, Marketing Aspects of Housewives' Knowledge of Goods. Gottenborg, Sweden: Institute for Marketing and Management Research, 1953.

† Newton, A.E., and D.L. Gilmore, "Consumer Behavior in Carpet Purchasing", Journal of Home Economics, Vol. 61, February 1969, pp. 110-113.

†† For example, see Katona, George, The Mass Consumption Society. New York: McGraw-Hill Book Company, 1964, pp. 176-177.

among nine North Central states covering 2,000 rural families on the meaning and the nature of financial security, and on the factors affecting their security.* Indicative of this type of studies undertaken is one by Phelan and Ruef, where they report that planning, protection and saving were the three key values pinpointed as related to the investments of 93 rural Pennsylvania couples.**

Similarly, in a study of Indiana farmers, Oberly concludes that the number and kinds of financial decisions and of family goals are influenced by family characteristics and are much more common in a conscious sense among younger families, those better educated, at families at both extremes of the income scale, and especially in families when the wife is in a professional or a managerial job.#

In still another study of this type, based on interviews with both husbands and wives in 65 families in New York State, approximately half urban and half rural, Crow finds that they were mainly concerned with financial security in the sense of reserves for emergencies, adequate level of living, future

* Willis, Elizabeth, Family Financial Security. Iowa State Agricultural and Home Economics Experiment Station Special Report 36, North Central Regional Research Publication No. 131, Ames, Iowa, 1964. This publication contains a list of the other studies undertaken as part of this work.

** Phelan, J.M. and R.R. Ruef, Values Expressed and Realized in Family Financial Plans. University Park, Pennsylvania: College of Home Economics Research Publication 176, Pennsylvania Agricultural Experiment Station Bulletin 685, 1961.

Oberly, J.A., Major Financial Decisions and Changes in the Family Life Span. Unpublished Ph.D. thesis, Purdue University, 1967.

security and increase in the level of living. Saving was undertaken mostly for security, for steady return and for the long run rather than for substantial or quick gains.* Indications of a relationship were noted among goals, concepts of financial security and financial management practices, such as the tendency for those concerned with job security to be more oriented toward financial security and very strongly disinclined to venture into debt.

These findings are useful in throwing light on why people think they should, or whether they should save at all, and reflect in effect the end-product of the family's decision-making in this regard. They do not, however, throw much light on how these decisions were made in the first place, or on the roles of the different family members in defining these objectives. In other words, the dynamics of the process is yet another area for further study.

2. Saving and Investment Management

The extensive work in economics on the determinants of saving and of asset holding** has not been paralleled by much comparable work on family roles in saving or investment behavior. Hence, as noted previously, it seems best to combine what has been done under these two headings and this single subsection.

* Crow, J.H., Financial Management in Relation to Family Values and Concepts of Financial Security. Unpublished Ph.D. thesis, Cornell University, 1961.

** A summary of this work to 1962 will be found in Ferber, Robert, "Research on Household Behavior", American Economic Review, Vol. 52, March 1962, pp. 19-63.

To Save or to Spend. Decisions on the allocation of family income between saving and spending can be considered from two very different perspectives -- the extent to which the family as a unit gives priority to saving and, with regard to family roles, which family members are involved in saving decisions.

At least two different approaches have been taken to investigate the priority of saving. One is what may be termed the "direct approach", whereby the family has been asked how it allocates income between saving and spending and the priority given to saving relative to spending. This is exemplified in questions asked of the consumer decision panel of young married couples operated in Decatur and Peoria, Illinois by Nicosia and Ferber. The results indicate, rather surprisingly, that fully half of the 312 couples were giving some priority to saving in allocating their funds by following a definite plan for saving part of their income in advance of spending. One of every five couples indicated that they would give top priority to saving under almost any circumstances. Undoubtedly pertinent is the fact that these couples had been married only three to six months at the time these questions were asked.

The more indirect approach has been to impute saving priorities to the family on the basis of general information on the family's saving and spending habits, on its type of savings, and on its budgeting practices. From this type of information, inferences have been made about saving priorities. Thus, in his early work, Katona has stressed the distinction between contractual and discretionary saving, pointing out that certain types

of saving by their very nature must receive top priority, because they have to be made every month (or every week), while other types of saving are more discretionary and hence are likely to have lower priority.* Katona notes, for example, that a monthly payment on a mortgage or a regular deduction from a paycheck for purchasing savings bonds must by definition have top priority because they are contractual in nature and are made as a matter of course.

Part of this saving may be unconscious in the sense that the family looks on it as a form of expenditure and, in the case of mortgage payments, may not even be aware how much is being saved in the form of home equity. It is not unlikely that some families prefer to delude themselves that such payments are a form of expenditures, partly because they feel obligated to make the payments if they regard it as an expenditure, and partly because in this way they can look forward to being pleasantly surprised when say, the mortgage is fully paid and they realize they have undisputed equity in their own home.

Some families are essentially saving-oriented and give priority to saving regardless of their level of assets, as Katona has shown.** Thus, people who save in the form of pension plans are also more likely to save in other forms, emphasizing the

* Katona, George, The Powerful Consumer. New York: McGraw-Hill, 1960, pp. 14-14, 92-93; also Katona, George, The Mass Consumption Society. New York: McGraw-Hill, 1964, Chapter 18.

** Ibid., Chapters 18-19.

saving orientation of some families.*

Family Roles. The roles of the different family members in making saving and investment decisions is largely a mystery. Some information on this question in a static sense is available from the "purchase influence" studies. Thus, in her study Wolgast found that "seeing that money gets saved" was a joint responsibility of husband and wife in 48 percent for sample families, of the wife in 27 percent and of the husband in 15 percent. In their study, Sharp and Mott reported that the purchase of life insurance was looked after primarily by the husband in 43 percent of the sample households, by both jointly in 42 percent, and by the wives primarily in 15 percent of the households, and that the frequency of dominance by the husband or by both jointly increased as income level rose.

From their panel data on young married couples, Ferber and Nicosia find that saving decisions are reported as being made overwhelming on a joint basis. Four-fifths of the couples reported this practice; the husbands only in 14 percent of the cases and the wives in 6 percent. The very special nature of the sample -- all being married six months or less -- undoubtedly influenced these responses (though it is hard to imagine a similarly high proportion of joint decisions in a corresponding sample, say, 40 years earlier).

*Katona, George, Private Pensions and Individual Saving. Ann Arbor: Institute for Social Research, 1965.

The fact remains, however, that these few studies and the general nature of the findings only serves to highlight the need for information on the dynamics of the family decision-making process with regard to saving and investment behavior.

Role of Teenagers. Rather surprisingly, the one family member that seems to have received some attention in the literature with regard to saving and investments is the teenagers. Hence, it would seem desirable to summarize briefly some of the findings for this group.

In his study of teenagers cited earlier, Cateora reports that his sample of teenagers placed great emphasis on saving. He finds that the higher the social position of the family, the more concerned were teenagers with saving.

This finding seems to be borne out by other studies. Thus, in their study on the reports of college students about their parents, Honey and Smith noted that when these students were at home, over four-fifths reported saving some money. (Also, nearly two-thirds kept some form of expense records and nearly 40 percent contributed to their own support.)

In another study of 610 "lower class" teenagers in six Southern Illinois counties, Fults and Zurich found that 22 percent saved on a regular basis.* In still another study in the same area, of 294 randomly selected 13-18 year-old teenagers

* Fults, A.C. and M. Zurich, "Money Management Practices of Teenagers from Low-Income Families", Journal of Home Economics, Vol. 59, January 1967, pp. 45-47.

in Southern Illinois high schools 65 percent were earning money in addition to getting an allowance and virtually all of them were trying to save some money, the principal saving objective being for education (64%), for the future (26%), or for a specific product or service (10%).* The principal forms of saving were saving and loan associations (44%), banks (38%), and government savings bonds (11%).

It is also pertinent to mention in this section the study of the spending and saving patterns of adolescent siblings by Phelan and Schvanevaldt. They found very different attitudes toward saving on the part of the two siblings as well as between each of the siblings and their mothers, even though the spending and saving habits of the siblings seemed to be influenced by social class of the parents, by age of the child and by amount of supervision received from the parents. Appreciable differences were also noted between siblings in their money-handling practices.

These studies would seem to suggest that despite the reputed spending tendencies of teenagers they are generally highly saving conscious and undoubtedly develop saving and investment attitudes during these years that influence their behavior for the rest of their lives.

*Zunich, M. and A.C. Fults, "Teenage Economic Behavior: Earning and Saving", Journal of Home Economics, Vol. 59, Nov. 1967, p. 739.

VII. A Modified Framework for Financial Decision-Making

The studies summarized in the foregoing sections would seem to indicate clearly that financial decision-making within the family is influenced by a great many different factors, and that the strength of these factors varies not only with the characteristics of the family but also with the nature of the decision that has to be made. In view of the disparate nature of these influences it seems hardly necessary or desirable to conclude this paper with a summary of how each of these influences effect family financial decision-making; in this respect the findings in each of the preceding sections speak for themselves.

A more useful means of concluding this paper would seem to be to indicate how the framework presented at the beginning relating to the interrelation of financial and nonfinancial decisions (Figure 1) might be modified on the basis of these findings to focus on the general factors that appear to enter into financial decision-making within the family. This would seem all the more desirable because the theoretical representations of family behavior presented to date attempt to focus either on general family behavior,^{*} on the relation between family behavior and other types of behavior,^{**} on the steps of the decision process[#]

* For example, see Edwards, K.P., "A Theoretical Approach to Goal-Oriented Family Behavior", Journal of Home Economics, Vol. 62, November 1970, pp. 652-655.

** Burk, M.C., "An Integrated Approach to Consumer Behavior", Journal of Home Economics, Vol. 59, March 1967, pp. 155-162.

As for example, described in the study by Schomaker cited earlier.

or on the various factors that appear to influence buyer behavior and their interrelations.* These other frameworks are extremely useful in themselves. The present framework is meant as a supplement rather than as a substitute, with the specific objective of focusing on family financial decisions and on the dynamics of the decision-making process within the family.

Such a modified framework is presented in Figure 2. The three rectangular boxes at the top of the diagram represent general exogenous forces influencing the financial position of the family and the attitudes of the different family members. Thus, reference groups (including mass media and other printed materials) clearly influence the attitude of both husband and wife.** Also, the characteristics of the individual family members obviously influence their attitudes; and some of their characteristics, such as occupation and employment status, influence the financial resources of the family. The third set of exogenous factors reflects primarily external economic events, the principal influence of which is on the family's financial resources.

The attitudes of husband and wife affect financial decisions not only directly but also through their interactions in the formation of family goals. At the same time, their attitudes, combined with the characteristics of the different family members, determine the structure of the family, which in turn will

* Howard, J.A. and J.N.Sheth, The Theory of Buyer Behavior, New York: John Wiley and Sons, 1969.

** If one of these members is not present, the box for that person will be empty.

influence financial decisions, especially money management and spending decisions. In addition, financial resources obviously affect the structure of the family, and influence financial decisions through this means as well as directly.

No attempt has been made in this diagram to single out individual financial decisions or to highlight individual variables among the broad categories depicted, nor has any attempt been made to allow for the attitudes or preferences of family members other than the wife or husband. This is partly for the sake of simplicity and partly because for most types of financial decisions the attitudes of these other family members tend to be much less important than those of the husband or the wife, at least on the average. Nevertheless, it is hoped this framework will prove useful as a basis for future studies of family financial decisions and as a basis for further development of models of such decisions.

This diagram can also be used to illustrate how the other papers presented at this conference interrelate with each other. Thus, the paper by Burk Strumpel deals with the endogenous elements of attitudes, motivations and aspirations of different family members. One other key endogenous factor, the family size (which is part of family structure) and its role in family economic behavior is the subject of the paper by Easterlin. The exogenous role of reference groups is dealt with in the papers by Segal and Maynes, while the influence of one type of external

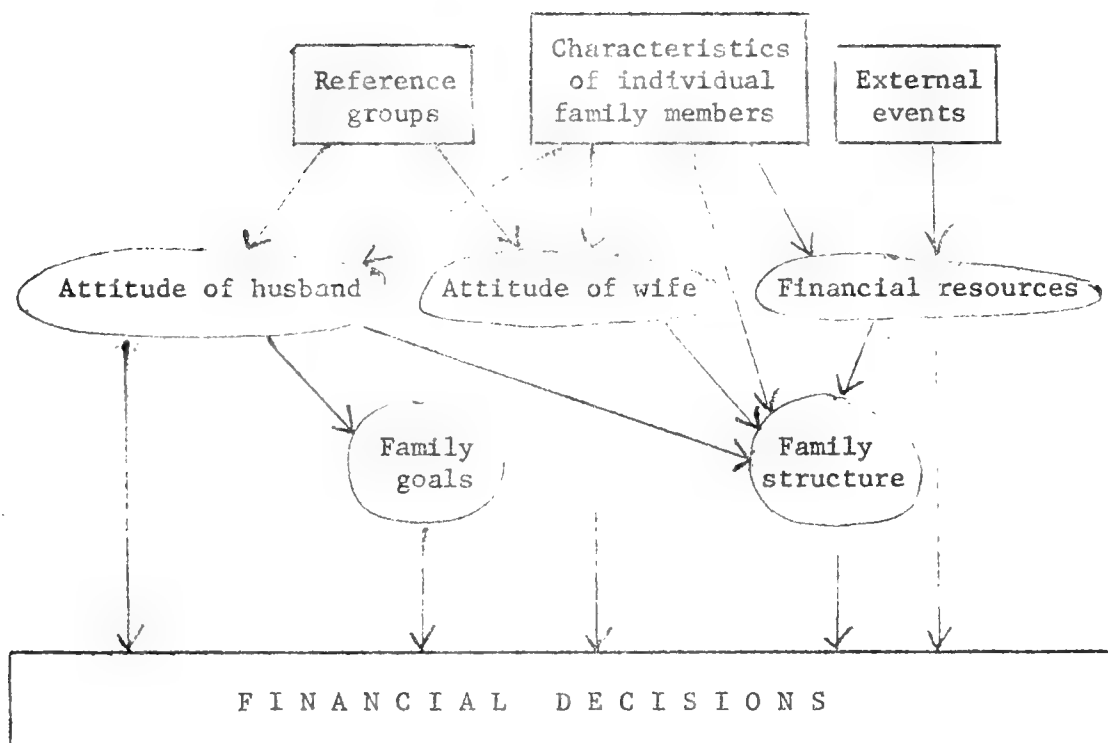


Figure 2. A Representation of the Factors Entering Into Financial Decisions Within the Family

economic variable on family behavior is considered in the paper by Scott and Shore. The paper by Schott considers trends in consumer financial management from a more macro point of view and relates more to the end-product of asset management rather than to the process itself.

Clearly, these papers are not all inclusive nor do they relate only to financial decisions. Taken as a group, they should contribute to our knowledge of this important field and should point the way toward still further contributions in the future.

Because of the limitations maintained concerning the length of papers published as working papers, the appendix is not included. It is, however, available, upon request.

1. *Introduction*
2. *Methodology*
3. *Results*
4. *Discussion*
5. *Conclusion*

6. *References*
7. *Appendix*
8. *Index*
9. *Glossary*
10. *Notes*

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