

EMOTIONAL ACCOUNTING AND ITS EFFECT ON CONSUMER BEHAVIOR

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Abstract:

Mental accounting postulates that individuals track and allocate their expenditures and savings using perceptive classes or mental accounts. The justification for this type of tagging we believe are emotions. The increase in effect of emotions on spending have given rise to a concept termed as emotional accounting whereby an individual's spending behaviour is influenced due to the emotional component attached with the form of spending. Due to this tag there is a conflict of choice between functional goals and experiential preferences. Consequently, they tend to consume in a particular manner which can be either of hedonic consumption or in utilitarian approach or even a combination of the two in proportions. This study is performed to identify the level to which emotions can substantially impact consumption behaviour. We identified that individuals tend to prefer utilitarian expenditure rather than expending on virtuous products. We investigated the behaviour under different circumstances under which individual receive money and their consumption patterns.

Keywords – Emotional Accounting, Mental Accounting, Consumption Patterns, Hedonic consumption, Utilitarian Approach

I. Introduction:

Most of our decisions related to money spending and savings are taken by considering certain factors and sometimes we may or may not consider such factors while making a decision. This paper will focus on how the money obtained under negative as well as positive circumstances affect the spending pattern of consumers. It is important to understand the behavioural pattern of consumers behind spending and their rationale while indulging in certain way of expending. Our paper revolves around the concept of emotional accounting, which is one of the components of mental accounting. We argue that feelings have a significant impact on the way that money is spent. It translates to fact that individuals tend to allocate money on the basis of certain emotions attached to it which arise due to factors like its origin, intended use etc. It is inclined towards the behavioural aspect of spending. We have also included in this study the concept of mental accounting which is another important determinant of understanding the rationale behind consumer spending. The core component we are

trying to crack is to understand how people treat money differently based on the source and anticipated purposes. Emotional desires can often dominate functional motives in the choice of products. There is always a conflict between functional goal and experiential preferences. We use three main attributes to understand spending behaviour to determine consumption patterns based on emotional accounting which are money obtained through inheritance, lottery and cashbacks, bonuses and incentives. Mental accounting is the set of cognitive operations used by individuals and households to organize, evaluate, keep track of financial activities. It basically comes down to the fact that people treat rupee in one account differently from rupee in another account since they have certain significance towards one account compared to the other. It suggests that individuals are likely to assign different functions to each asset class which can lead to a behaviour that is irrational and detrimental. Under the multiple factors that affect spending behaviour, the emotions associated with them are not taken into account which leads to violation of the whole aspect of fungibility. Therefore, it becomes very essential to take in consideration an intangible element which can significantly affect rational behaviour. There are mainly two types of consumption strategies that consumers are involved in, which are hedonic consumption and utilitarian consumption. The study is based on primary data which have been collected from individuals belonging to different classes of occupation. By integrating emotions regarding a given sum of money into mental accounting we explain rationale behind the way the individual acted upon.

II. Review of Literature:

- a) **(Levav & McGraw, 2009) Emotional Accounting: How Feelings about Money Influence Consumer Choice.** This article reflects a part of sentiments in mental accounting that past researchers have not yet considered. Emotional Accounting has been presented as a variation of mental accounting that classifies cash based on the basis of the feeling it evokes and the valence and intensity of these feelings may exert a substantial influence on recipients' spending behaviours. It focuses on negative labels in light of the fact that past investigate has appeared negative feelings are more powerful than positive feelings as a stimulus for state of mind regulation. It addresses the role of feelings in the labelling of windfalls have displayed proof that bonus consumption can be roused by full of feeling assessments of the cash or "affective tags." More explicitly, when individuals have negative sentiments about a bonus, the cash is less liable to be spent on indulgent products than windfalls associated with absolutely positive sentiments. It has also examined some of the manners in which that emotions impact purchaser spending. In particular, the explicit treatment of sentiments in mental accounting focuses on people's preference to mentally couple gains and losses or payment and consumption.
- b) **(Thaler, Mental Accounting Matters).** In this report the author talks about the aspects of mental accounting. Mental accounting is the arrangement of intellectual tasks utilized by people and family units to compose, assess, and monitor financial activities. Making utilization of research on this point

over the previous decade, this paper condenses the current condition of our insight about how individuals participate in mental accounting. Three segments of mental accounting get the most consideration. The accounting system provides the inputs to be both ex ante and ex post cost-benefit analyses. A second component of mental accounting involves the assignment of activities to specific accounts. Both the sources and employments of assets are named in genuine just as in mental bookkeeping frameworks. Consumptions are gathered into classes (lodging, nourishment, and so on.) and spending is in some cases compelled by certain or express spending plans. The third segment of mental accounting concerns the recurrence with which accounts are assessed and ‘choice bracketing’.

- c) **(Thaler, Anamolies Saving, Fungibility, and Mental Accounts)** In this report the author talks about an aspect called fungibility which means money has no labels. They talk about multiple anomalies that might affect rationale behaviour. This study is based on the notion that the people possessing wealth in different forms have a system of mental accounts. One formulation is to consider three broad accounts, a current income account, an asset account and a future income account. The whole report focusses on the aspect of how the wealth is diversified and expended and what are the backings for their decisions through a model proposed by the author.
- d) **(Rizal, 2017)** In this Journal article the author talks about how budgets are affected due to the aspect of mental accounting. This was identified in order for companies to develop marketing strategies with respect to timing of offers, pricing strategies, product launches etc. They describe the process that goes into the behaviour of consumers. He analysed this aspect at the point of making decisions. He identified that the impact of mental accounting is highest in case of complex purchase where the involvement of the consumer is the highest.
- e) **CFP Board, Zhang, C Y, & Sussman, A B (2018). The Role of Mental Accounting in Household Spending and Investing Decisions.** In this article the author provides an insight on how mental accounting for assets and debt influences wealth perceptions as well as decisions to prefer or avoid debt. He then goes on to explain about the implications of the mental accounting process for investing and also discusses the relevance of opening and closing accounts and choices about which assets to purchase. He also suggests a way to proceed about the understanding of the theory in the future.

III. Research Design:

- i) Research Gap:

We identified that there are only a few articles on the concept of “Emotional Accounting”. Even though multiple studies have addressed the concept of mental accounting and its relationship with consumer behaviour, there have been more papers that have elaborated on the concept of emotional accounting. The only paper that talks about emotional accounting was performed several years back and its relevance and scope in today’s scenario is questionable.

The study that was performed formerly pertained to the United States and the concept has not been addressed in India. Emotions with respect to decision making have not been evaluated in prior studies.

ii) Statement of the Problem:

Irrational spending has been a major issue with respect to individuals. Often individuals treat different money in their mental accounts, which is due to different tags associated with a certain sum of money. These tags are assigned based on origin it was obtained from and the intended use. The whole tagging process violates the notion of fungibility and rationality. Multiple studies have addressed the concept of mental accounting but only a few have discussed about emotional accounting in relation to spending.

iii) Research Objectives:

The objectives of the study are laid down as follows: -

- a) To determine the relevance of emotional accounting when it comes to consumption behaviour on the basis of gender.
- b) To provide a comparison between spending when money is obtained from three different sources and their intended uses when obtained through such sources.

iv) Hypothesis:

Null Hypothesis(H01): There is no significant relationship between individual spending and emotions.

Alternate Hypothesis(HA1): There is a significant relationship between individual spending and emotions.

Null Hypothesis(H02): There is no significant relationship between intended use and spending pattern on the basis of gender.

Alternate Hypothesis(HA2): There is a significant relationship between intended use and spending pattern on the basis of gender.

v) Assumptions:

We assumed that the individuals who were a part of a study were subject to the receipt of the three sources we mentioned which are inheritance, cash rewards/cash backs, bonuses and incentives.

vi) Analytical Tools:

We have used SPSS and Microsoft Excel to analyse the primary data that we have collected as a part of our study.

vii) Expected outcome:

The expected outcome was to understand the behaviour of consumers based on emotions and we also wanted to understand the factors that make individuals differentiate between certain pattern of expending

in their mental accounts. We also expected to provide a differentiation on the basis of gender and their pattern of spending when it comes a receipt of money obtained through inheritance.

viii) Source:

The study is based on primary data. The questionnaire was circulated among individuals belong to different categories of occupation and we had collected a sample of around 225 respondents. The breakdown for the same are listed below:

Table IV.1:

Statement	Male	Female	Total
Occupation:			
Student	64	63	127
Employed	67	11	78
Home Maker	1	4	5
Other	13	2	15
Total	145	80	225

We had circulated a questionnaire among the individuals belonging to India from different backgrounds and occupation, from the data we collected we identified that we had a total of 225 respondents out of which 64% who responded were male and 36% were female. Out of the total respondents 56% were students and equal proportion of male and female had responded. 35% of the respondents were individuals who were employed and 86% were male and 14% were female. 2% of the respondents were Homemakers and out of which 20% were male and 80% were female. 6% of the total respondents were not belonging to the above three categories and 86% were male and 14% were female.

Table IV.2:

Statement	Male	Female	Total
Receipt of Rs 5,00,000 as bonus:			
Employed	67	11	78
Homemaker	1	0	1

Out of 225 respondents 79 were subject to a receipt of bonus which is about 35% of the population and out of which 78 were employed within which 85% were male and 15% were female and there was a single respondent who was a male. These are the population that are subject to our hypothesis testing.

Table IV.3:

Statement	Male	Female	Total
Receipt of money as a part of inheritance:			
Student	3	4	7
Employed	4	2	6
Other	2	0	2

Out of the total respondents only 15 were subject to receipt of money from inheritance and they were spread over different categories. This became our source for another test of hypothesis.

IV. Data Analysis:

The analysis and interpretation of data and information of the study is shown below:

We used Chi square for testing both the hypothesis, the following was identified under the first hypothesis:

Null Hypothesis(H01): There is no significant relationship between individual spending and emotions.

Alternate Hypothesis(HA1): There is a significant relationship between individual spending and emotions.

For this analysis the significance level is 0.5. Using the sample data, we conducted the chi-square test for independence. Applying the chi-square test for independence we identified that there was a significant relationship between emotions and spending pattern of individuals. The p value was less than 0.5 therefore we reject the null hypothesis and accept the alternate hypothesis.

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
GENDER * SPENDING	225	100.0%	0	0.0%	225	100.0%

GENDER * SPENDING Cross tabulation

Count

		SPENDING				Total
		1.00	2.00	3.00	4.00	
GENDE	1.00	52	32	53	8	145
R	2.00	41	13	25	1	80
Total		93	45	78	9	225

Tests are performed based on dividing the individuals based on gender and this is done without considering their occupation and their behaviour when it comes to getting a sum of money from cashbacks.

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.591 ^a	3	.086
Likelihood Ratio	7.012	3	.072
Linear-by-Linear Association	4.766	1	.029
N of Valid Cases	225		

a. 1 cells (12.5%) have expected count less than 5. The minimum expected count is 3.20.

We used SPSS to analyse the relationship between money and the emotions with respect to gender. This in particular was done with respect to expending of a receipt of money when received through bonus.

Null Hypothesis(H02): There is no significant relationship between intended use and spending pattern on the basis of gender.

Alternate Hypothesis(HA2): There is a significant relationship between intended use and spending pattern on the basis of gender.

For this analysis the significance level is 0.5. Using the sample data, we conducted the chi-square test for independence. Applying the chi-square test for independence we identified that there was a significant relationship between gender and spending pattern based on emotions. The p value was less than 0.5 therefore we reject the null hypothesis and accept the alternate hypothesis.

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
GENDER * SPENDING	95	100.0%	0	0.0%	95	100.0%

GENDER * SPENDING Cross tabulation

Count

		SPENDING					Total
		1.00	2.00	3.00	4.00	5.00	
GENDE	1.00	16	18	21	9	11	75
R	2.00	2	7	4	6	1	20
Total		18	25	25	15	12	95

Gender is divided among two categories which are male and female and the spending pattern are evaluated based on five different options which are attached with a certain type of emotion.

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.588 ^a	4	.159
Likelihood Ratio	6.521	4	.163
Linear-by-Linear Association	.102	1	.749
N of Valid Cases	95		

a. 3 cells (30.0%) have expected count less than 5. The minimum expected count is 2.53.

V. Findings:

It is identified that the null hypothesis is rejected in both instances which shows that there is a significant relationship between individual consumption pattern and emotions which can be identified through these evidences:

a) It is observed that a majority of the individuals prefer to save a sum of money and retain it in the wallet itself when they receive a cash back or a reward which shows that they have a conservative approach when it comes a sudden windfall gain as such gains are rare in nature. The next highest allocation of such money is preferred to be utilised in paying off bills which are due by the end of the month. So in both the cases we can clearly contemplate that individuals prefer utilitarian consumption and avoid spending on virtuous products. There are a few respondents who want to keep repeating such transactions and therefore stand a chance to get more such incentives and cashbacks. The most minimal amount of individuals wanted to spend it instantaneously through spending on trips, exotic food etc. On the whole we could understand that most of the individuals prefer utilitarian consumption due to the associated use and in some cases the source as well plays a role in decision making.

b) In the second hypothesis, it was identified that there is different way of expending of male form female. We had given a case whereby we had given individuals a sum of 5 Lakh Rupees and how they tend to spend this money and a clear differentiation was identified in the intended spending area. We limited this question to individuals who have only actually received bonuses or incentives. We identified that there was an equal amount of distribution between investing in land or building and accumulating and saving money for children's education, but most of the men preferred saving money for children's education and future expenditure whereas women preferred investing in a long term asset more. Again both the choices are a planned move and neither of them want to indulge in a vacation or any immediate consumption method. There is a tag attached to this sum of money as it is hard earned and it is specifically used for strategic consumption. Now if they prefer cases such as a vacation or immediate spending it could be the reason that their income levels might be high. The second most preferred choice being investing in gold which is again attached to the fact that gold can be a good investment and can be mortgaged in the future for emergency purposes. So in

total there is a differentiation when it comes to using money through such sources there is different purpose of utilisation among men and women due to the fact that their mentality being different as different set of people perceive the sum of money in different ways.

c) Another observation that could be made is that generally inherited money is preferably used to invest in financial securities and long term assets and a number of individuals also preferred to pay of their debts with inherited money and some individuals also wanted to spend a major part of it and save a little. On the whole it was more of a defensive approach whereby hoarding and storing money was a primary objective. So therefore the whole reason of such hoarding could be justified by the sentimental value attached to it.

VI. Conclusion:

Mental accounting generally proposes that there is a cognitive categorization process to justify consumer expending decisions. We suggest that there is an additional component that underlies people's choices of expenditures which are the feelings associated to the sum of money. Specifically, we identified situations where people receive a given receipt of money under different circumstances and also the choices that they make between their allocation of expenditures. In total we can conclude that there are a set of emotions that an individual needs to understand which underlie his/ her decisions which need to be evaluated before making a choice. They must also treat any money as fungible and not avoid treating them under mental accounts or else they might not be effectively utilising a given amount of money.

VII. References:

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