Reference Group Influence and Conspicuous Consumption: A Financial Risk?

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Abstract

It is hard not to notice the influences human beings exert on one another, nowadays. Especially in the protective student community, influences seem particularly strong. This literature review is done to provide insight in the processes that drive those influences and, most of all, to investigate the financial consequences of all this. Via a theoretical analysis of reference group influence and conspicuous consumption and their connection, an analysis of the consequences for consumers is done. Eventually, by reflecting those consequences on students after having analyzed them from a financial perspective, a two-folded conclusion is reached.
Table of contents

Abstract .................................................................................................................. 2

Chapter 1: Introduction

1.1. Background ................................................................................................. 5
1.2. Problem definition ....................................................................................... 6
1.3. Problem statement ....................................................................................... 7
1.4. Research Questions ..................................................................................... 7
1.5. Conceptual Model ....................................................................................... 8
1.6. Thesis Structure ........................................................................................... 8
1.7. Relevance

1.7.1. Academic relevance ................................................................. 9
1.7.2. Managerial relevance .............................................................. 10

Chapter 2: Theoretical basis

2.1. What is reference group influence? ..................................................... 11

2.1.1. Reference groups ............................................................................... 11

2.1.1.1. General definition ................................................................. 11
2.1.1.2. Subdivision ............................................................................. 12
2.1.1.3. Focus ...................................................................................... 14

2.1.2. Reference group influence ........................................................ 14

2.1.2.1. General definition ................................................................. 14
2.1.2.2. Subtypes ............................................................................... 15
2.1.2.3. Focus ...................................................................................... 17

2.2. Conspicuous Consumption ................................................................. 17

2.2.1. General definition ............................................................................... 17
2.2.2. Intermezzo: Status ........................................................................... 18
2.2.3. Conspicuous products ...................................................................... 19

2.3. How does reference group influence affect conspicuous consumption?.. 20

2.3.1. In general ......................................................................................... 20
2.3.2. Students ............................................................................................ 21
2.4. Summary ................................................................. 22

Chapter 3: Practical definition

3.1. General effects of conspicuous consumption .......................... 23
   3.1.1. Society .............................................................. 23
   3.1.2. Individual .......................................................... 24
3.2. Financial effects ............................................................ 26
3.3. Students .......................................................................... 28
3.4. Summary .......................................................................... 30

Chapter 4: Conclusions

4.1. Conclusions ................................................................. 31
4.2. Implications ................................................................. 32
4.3. Limitations ................................................................. 33
4.4. Future research ........................................................... 34

References ............................................................................. 35
Chapter 1: Introduction

1.1 Background

In society nowadays, all people are in some way influenced by others (e.g. Merton & Rossi; 1949). From a consumer behavior perspective, this shows in the influence exercised on an individual’s consumer decision making behavior by groups of people, consisting out of one’s friends, family, colleagues, idols, superiors, et cetera. This is known as a person’s reference group (Bearden & Etzel, 1982; Childers & Rao, 1992; Yang & Allenby, 2003).

Another feature of society is that people are motivated to continuously develop and improve a certain concept of the self, or identity, and to seek confirmation and verification by others for this at all time (Banaji & Prentice, 1994; Escalas & Bettman, 2003).

There are many different ways to construct a self-concept. From a consumer behavior point of view, the interest lies in the construction of an identity by associating with certain brands or by expressing oneself through certain purchases (Escalas & Bettman, 2003; Escalas & Bettman, 2005). The lavish purchase of goods or services intended for the use of clearly showing what one stands for and to send a message to one’s peers, is called a conspicuous purchase (Bagwell & Bernheim, 1996; O’Cass & McEwen, 2004; Veblen, 1899). Conspicuous goods are prestige goods that satisfy a social need (e.g. Amaldoss & Jain, 2005; Belk, 1988). Furthermore, conspicuous goods are more expensive than other goods (Amaldoss & Jain, 2005).

According to O’Cass & McEwen (2004), amongst others, a relationship between reference groups and conspicuousness seems to exist. Furthermore, Veblen (1899) stated that it is possible
to consume conspicuously without others observing the clear goals of the consumer when buying the conspicuous good.

Acknowledging the possibility of this relationship, let’s look at the following example.

Imagine the situation in which you bought this horribly expensive pair of leather shoes. Back home, you start reconsidering why you actually bought these shoes. They are not the best looking pair you have ever seen and are a real torture to your feet. Besides, you did not really need another pair of shoes and mostly; a purchase like this doesn’t quite fit your monthly budget, at all! But then again, everybody at the office does have shoes looking like these lately and this pair is the absolute top of the bill. That makes you look good…

As you might have noticed, the person in the example is influenced by his colleagues in making a particular, at first sight irrational, purchase decision.

Now, let the above be a situation in which a random student finds himself. Students are generally known for their tight monthly financial budgets and, at least most of them, need to work and or borrow money to cover up deficits (Kidwell & Turrisi, 2004). With increasing costs of living and study expenses and upcoming changes in government allowances for students, a purchase like the one above likely has, both in the short and long term, a negative effect on the poor student’s financial position. Or does it?

1.2 Problem Definition

Consider our student in his student community. Students are known to have a relatively weak financial position in society (Kidwell & Turrisi, 2004), are very susceptible to reference group
influence (Park & Lessig, 1977), and place on average more importance on conspicuousness (O’Cass & McEwen, 2004).

What are the risks for students concerning reference group influence and conspicuous consumption? Are there severe financial consequences up ahead when one simply conforms to the social norms in student society? Or is it advantageous to conform, keep up and search for verification? What about not conforming? What are the financial consequences when students try to avoid being affected by reference groups and conspicuousness?

In this thesis, the focus will be on the relationship between reference group influence and conspicuous consumption and the consequences this has for students’ financial situation.

1.3 Problem statement

Now that the problem is defined, the problem statement in this thesis will be:

*What are the consequences of reference group influence via conspicuous consumption on a students’ financial situation?*

1.4 Research Questions

- What is Reference Group Influence?

- What is Conspicuous Consumption?

- What is the effect of Reference Group Influence on Conspicuous Consumption?
- What Consequences does this have for Students’ financial situation?

1.5 Conceptual model

With the previous information in mind, the conceptual model takes form. In short; reference group influence on students has an effect on their level of conspicuous consumption, which in turn has consequences for their financial situation.

Schematically:

1.6 Thesis structure

After this introduction, the theoretical basis of this thesis is explained. In this chapter, I will first discuss the concept of reference groups and its influence, then the concept of conspicuous consumption and finally the effect reference group influence on conspicuous consumption. After that, in chapter 3, the consequences of the theory for consumers’ financial situation in general and with respect to students will be discussed. The final chapter consists of general conclusions, recommendations, limitations and grounds for further research.
1.7 Relevance

1.7.1 Academic Relevance

Concerning reference groups, descriptive literature (e.g. Merton & Rossi, 1949) and further defining literature (e.g. Escalas & Bettman, 2005; Park & Lessig, 1977; Zamborain & Venkataramani Johar, 2007) are abundantly present in academic databases. Furthermore, the amount of literature written on the effect of reference groups on product purchase and or brand decisions for all kinds of social groups and classes seems endless (e.g. Bearden & Etzel, 1982; Childers & Rao, 1992; Elliott & Leonard, 2004). The same holds for describing conspicuous consumption (e.g. O’Cass & McEwen, 2004; Veblen, 1899) and processes with conspicuous characteristics (e.g. Amaldoss & Jain, 2005; Bagwell & Bernheim, 1996).

Despite the amount of literature that consist both of the above concepts, the relationship between reference group influence and conspicuous consumption most of the time it is not explicitly mentioned and described. It seems to be but more or less assumed. Touched upon and recognized by some (e.g. O’Cass & McEwen, 2004), a review fully focused on this relationship seems at first sight hard to find. This thesis tries to provide a review describing the relevant link between the two concepts.

Furthermore, little is known about the financial consequences of conspicuous consumption for different societal groups and individuals. There are studies that show for example economic consequences of conspicuous consumption for society as a whole (Amaldoss & Jain, 2005), but there is seems to be little research on the consequences on a consumer basis. This thesis tries to find out what consequences are likely to occur when students enact in conspicuous consumption behavior triggered by reference group influence.
1.7.2 Managerial Relevance

The practical relevance of this thesis might be found in the possible financial consequences of reference group influence on, in particular, students. When it seems that students will be worse off financially, this could have serious consequences for both students individually and society. For example, students may have to borrow more money, either via the governmental system or via banks, because of their tightening financial situation. This could seriously affect their future purchasing power and limit personal freedom. Another example might be that students decide to cover their deficits by working extra shifts on their part-time jobs. This can have a huge impact on study progress, for one. In any way, both examples are costly to society.

But perhaps a positive effect on students’ financial situation exists. When, for example, a student accepts the reference group influence with its conspicuousness and goes along with it, although financially tough at first, it might result in a more favorable attitude towards the student and more social interaction. Consequently, a larger social network can be created. This in turn can result in better job opportunities and hence higher future salaries.

Either way, policymakers, whether governmental or corporate, could develop and adapt strategies of encouragement or discouragement towards reference groups to reach specified goals (e.g. decrease of student debts, more successful job selection process) concerning the student population. After all, as mentioned before, students are very susceptible to reference group influence (Park & Lessig, 1977) and conspicuousness of products (O’Cass & McEwen, 2004). Creating a well-fit policy can be very effective in reaching those goals. This thesis could provide better insights for this.
Chapter 2: Theoretical basis

The theoretical basis of this thesis is extensive at first sight. In order to prevent getting lost in it and its extant literature, a concise but complete explanation to become fully clear and understandable might be needed. Answering the first three research questions, this chapter therefore is trying to describe the theory in one piece, making it possible to easier interconnect concepts and to keep track of the main point. As a whole, the theoretical basis can then be immediately reflected on the object of interest after this chapter.

2.1 What is reference group influence?

The first part of the theoretical basis of this thesis is reference group influence. In finding out what this actually means, it is important to first know what a reference group is. Hence this paragraph is split into half, covering the concept of reference groups first, and the influence they exercise later.

2.1.1 Reference groups

2.1.1.1 General definition

First characterized by Hyman (1942), the concept of reference groups nowadays is a main subject in consumer behavior research. Since then, much research on the subject has been done, resulting in a further refinement and subdivision of the concept (e.g. Bearden & Etzel, 1982; Park & Lessig, 1977; Yang & Allenby, 2003).
In search of a generally accepted definition however, it remains difficult to capture it in a comprehensive sentence. Earlier work results in definitions that do not define the concept thoroughly enough (Hyman, 1942; Merton & Rossi, 1949), most later research focuses more on certain aspects of reference groups and defines those instead, taking the concept of reference groups for granted, or providing an unsatisfying, mostly implicit definition, up front or „on the way” (e.g. Childers & Rao, 1992; Escalas & Bettman, 2003; Yang & Allenby, 2003).

Considering the general aspect of this part of the thesis, the definition of reference groups as formulated by Park & Lessig (1977) seems to be best suitable:

“An actual or imaginary individual or group conceived of having significant relevance upon an individual’s evaluations, aspirations, or behavior.”

2.1.1.2 Subdivision

Now, let’s distinguish several subtypes of reference groups. First of all, positive and negative reference groups exist (White & Dahl, 2006). A positive reference group, also known as an associative reference group, is a group that individuals want to be associated with (Turner, 1991; White & Dahl, 2006). Consequently, a negative reference group is a group that individuals want to avoid being associated with, hence, a dissociative reference group (Englis & Solomon, 1995; Turner, 1991; White & Dahl, 2006).

Some examples of a positive, or associative, reference group are: colleagues, friends, or family. Examples of negative reference groups are: fans of your favorite football club’s archenemy, or those horrible jocks walking around on campus with their steroid bodies and sports jerseys.
Positive reference groups consist on their turn out of 2 subgroups: member groups and aspiration groups. Member groups are defined as groups to which an individual currently belongs, whereas aspiration groups are groups that an individual aspires to belong to (Escalas & Bettman, 2003; White & Dahl, 2006).

Past literature also suggests the existence of two other types of reference groups, being comparative groups and normative groups (e.g. Childers & Rao, 1992). Comparative reference groups are defined as groups that are used as standards for self-appraisal, and normative groups are groups that are used as a source of personal norms, attitudes, and values (e.g. Bearden & Etzel, 1982).

Examples of normative referents are parents, teachers, and peers, i.e. people who provide the individual with norms, attitudes, and values through interaction. Examples of comparative referents are sports heroes, and entertainment figures, providing standards of achievement to which individuals aspire and are relatively further removed from the individual. In essence, direct interaction is not present and thus only observation of the aspired behavior is possible (Childers & Rao, 1992).

Comparing the last two paragraphs reveals similarities between the concept of member groups and normative reference groups, and between aspiration groups and comparative groups. Since the only real difference between the pairs is mainly their label and the era in which they are predominantly used in literature, from here on they are considered equal.
2.1.1.3 Focus

To keep this thesis concise, within bounds, and on the right track, it is vital to narrow down to one of the above subtypes. The focus of this thesis will be on the positive part of reference groups, in particular on normative or member groups from now on.

Besides the previously mentioned arguments, narrowing down to normative groups is interesting because in this part of the reference group construct direct interaction occurs, which is useful for the explanation of possible consequences after conspicuous consumption is introduced.

2.1.2 Reference group influence

2.1.2.1 General definition

From a consumer behavior perspective, reference group influence is the influence reference groups have on consumers’ purchase decisions (Bearden & Etzel, 1982; Childers & Rao, 1992). Many different types of influences can be found in the extant literature. Describing every single one of them is however too much work and moreover unnecessary, since most of them are generalizable in the three types of reference group influence identified in consumer research: informational, utilitarian, and value-expressive (Park & Lessig, 1977; Escalas & Bettman, 2003), where the latter two are also known as normative influence (Burnkrant & Cousineau, 1975) and the former is also known as comparative influence (e.g. Bearden & Etzel, 1982). For clarification purposes, all three will be described below. After that, as was done with the concept of reference groups in the previous paragraph, the focus will shift to one of them.
2.1.2.2 Subtypes

Informational influence

Based on previous research by e.g. Deutsch and Gerard (1955), Park and Lessig (1977) were the first to conceptualize the construct of informational influence. The central thought of this type of influence is that individuals want to make certain informed decisions. In doing this, they need to acquire information in need to face the uncertainty surrounding such decisions.

According to the consumer, the available sources that are most suited for this are the ones with very high credibility about the subject and one’s significant others. Significant others are used for observation purposes based on attributes of importance awarded to a certain product. After these observations, inferences are made. High credibility sources are used to actively search for the right information concerning the decision. No actual interpersonal interaction is needed with this type of influence (Park & Lessig, 1977; Bearden & Etzel, 1982).

An example of this type of influence is an individual deciding to purchase a certain type of television after having watched a movie and played videogames on friends’ televisions. Another example is an individual deciding to purchase a certain type of television after seeing his favorite scientist owning the exact same one.

Utilitarian influence

Based on the work of, amongst others, Deutsch and Gerard (1955), utilitarian influence is defined as an attempt to comply with the preferences or expectations of another individual or group. When a person feels that certain types of behavior will result in rewards or punishments
from others and these outcomes are viewed as important, that person will find it useful to meet the expectations of these significant others (Park & Lessig, 1977; Bearden & Etzel, 1982).

An example of this type of influence can be found in the process of student initiation in a fraternity. When a person is being initiated, he displays a behavior he thinks is in accordance with the fraternity, leading to his eventual membership.

*Value-expressive influence*

The construct is defined as influence related to an individual’s motive to enhance or support his self-concept, by means of associating with positive referents and dissociating with negative referents (Kelman, 1961, Park & Lessig, 1977). This association can take two forms.

One, an individual attempts to utilize, resemble or be like referents in a reference group in order to express himself or to bolster his ego. In this case, a consistency between self-expression and the psychological image to be obtained that is attached to the reference group should however exist (Park & Lessig, 1977; Bearden & Etzel, 1982). In other words, it is important that the desire to conform to the expectations of others for the sake of a desired image (Bearden, Netemeyer & Teel, 1989; Clark & Goldsmith, 2006) does not cause conflict with self-expression.

A recently initiated student wearing his newly acquired fraternity jersey for the first time to a fraternity party and proudly showing it around is an example of this type of influence.

Two, an individual is influenced by the reference group out of sheer liking or affect for that particular group. No consistency between self-expression and obtainable image needs to exist, since the need for acceptance of the influenced behavior is irrelevant for the individual and the content of the influenced behavior is irrelevant for the group (Park & Lessig, 1977).
An example of this type of influence is the football supporter cheering his team to victory, wearing their home-jersey, now and then heavily shouting at the away-team supporters.

### 2.1.2.3 Focus

In this thesis, in compliance with the focus on normative groups, normative influence (i.e. value-expressive and utilitarian influence) is of main concern from now on.

### 2.2 Conspicuous Consumption

The second important concept in the model introduced in the first chapter is conspicuous consumption. In this paragraph, the concept is explained.

#### 2.2.1 General Definition

Now, the concept of conspicuous consumption as such has been adopted by the *Oxford English dictionary* and reads, free to Veblen (1899): “Wasteful and lavish consumption expenses to enhance social prestige.”

This definition might need some refinement, however. Today, the social and economic environment and society as such is not the same as it was in 1899, when Veblen published his “Theory of the Leisure Class”, the starting point of research on conspicuous consumption. He (Veblen, 1899) did however mention his expectations of future developments in the construct of conspicuous consumption he just described in his work. That is, in a more mobile society people
have less directly available information about a person’s conspicuous consumption of leisure activities, thus, for better signaling purposes, a shift in the direction of the conspicuous consumption of goods and services is made instead.

With this last assumption, Veblen somehow already prepared his construct of conspicuous consumption for the future. Chaudhuri & Majumdar (2006) brought additional nuance to the concept in stating that the lavish display of wealth is more and more abandoned for a more subtle display of status and position. Now, with a little help of O’Cass & McEwen (2004) a general definition can be given:

“The tendency for individuals to enhance their image through overt consumption of possessions, which communicates status to others.”

2.2.2 Intermezzo: Status

It is important to note that, although related, conspicuous consumption and status consumption is not the same (O’Cass & McEwen, 2004). Often treated as similar or at least overlapping constructs in research literature, this eventually creates empirical difficulties and theoretically unclear and unsatisfying results (Amaldoss & Jain, 2005; O’Cass & McEwen, 2004). The main difference between status consumption and conspicuous consumption is best explained in stating that status consumption is the desire to gain prestige from the acquisition of so-called “status-laden” (products perceived as status enhancing) products and brands, whereas conspicuous consumption is based upon the visual display or overt usage of products in the presence of others. So, in essence, status consumption focuses more on the personal nature of owning status-laden
products that are publicly or privately consumed (the latter part being of lesser interest to consumers), while conspicuous consumption focuses on the overt display of products in public, signaling wealth, success, or position (O’Cass & McEwen, 2004).

It is important to bear in mind the differences described above with respect to the theoretical model of this thesis. It is difficult to notice differences between the two concepts when unfamiliarity with the subject is present, but essential to this thesis.

2.2.3 Conspicuous products

When enacting in conspicuous consumption, one buys conspicuous products. These products satisfy not only practical or material needs, but also social needs such as prestige (e.g. Amaldoss & Jain, 2005; Belk, 1988). Furthermore, conspicuous goods are more luxurious, exclusive and hence more expensive (i.e. not easily available to everyone) than their non-conspicuous counterparts (Amaldoss & Jain, 2005; Bearden & Etzel, 1982; Bourne, 1957). Also, conspicuous goods need to be consumed in public (i.e. visible to others) in order to be conspicuous (e.g. Bourne, 1957). In that way, people can easily identify the product or its brand (Bearden & Etzel, 1982).
2.3 How does reference group influence affect conspicuous consumption?

The relationship between reference group influence and conspicuous consumption is explained in this paragraph, focusing solely on the normative part of reference group influence.

2.3.1 In General

According to O’Cass & McEwen (2004), normative reference group influence directly relates to the tendency to consume conspicuously. Also, the extant literature shows that consumers’ desire for conspicuous goods is determined by their social network and reference group influence (O’Cass & McEwen, 2004; Wong & Ahuvia, 1998). Furthermore, research has shown that influence from normative groups (i.e. groups where direct interaction is common) on consumers is stronger than the influence from informational or comparative groups (Bearden, Netemeyer, & Teel, 1989).

Now, how does the relationship between reference group influence and conspicuous consumption exactly hold for normative reference groups under accompanying normative influence?

Reconsider the example of buying the highly expensive pair of leather shoes to impress co-workers. Colleagues are a common example of a normative reference group, exerting influences as described in the previous paragraphs. Considering just the normative (i.e. utilitarian and value-expressive) influence, and its effect on conspicuous consumption, the rationale behind the process is explained below.

In (Western) society people have certain social needs. For example, people are motivated to create a favorable and consistent self-identity (Escalas, Bettman, 2003). Furthermore, there exists
a need for consistency and self-verification within people (Banaji & Prentice, 1994). Also, people are in need of maintaining and enhancing self-esteem (Greenwald, Bellezza & Banaji, 1988). These needs are best satisfied amongst people with whom one interacts and associates, i.e. a normative reference group (Escalas, Bettman, 2003) and is, amongst others, done by expressing oneself via differentiating brands and products visible to others (e.g. Chaudhuri & Majumdar, 2006; Escalas & Bettman, 2003, 2005). Individuals appear to define themselves and others in terms of possessions (Belk, 1988; Firat, 1991; O’Cass & McEwen, 2004). Furthermore, consumers form associations between reference groups and the brands they use and transfer these meanings from brand to self by selecting brands with meaning relevant to an aspect of their current self-concept (Escalas & Bettman, 2005). This calls for a certain consumption pattern concerning conspicuous products. The consumption pattern of those who set the standards (i.e. norms) for quality and taste serves as guidance for the individual, directly influencing his demand for socially conspicuous products (O’Cass & McEwen, 2004).

In this way, value-expressive and utilitarian influence within normative reference groups lead to conspicuous consumption.

2.3.2 Students

Being the target group for this thesis; how does the above hold for students? Students are known to develop a strong self-identity versus brand relationship when the reference group they strongly associate themselves with also has a strong relationship with that brand (Escalas & Bettman, 2003). Moreover, young people (especially males) place greater importance on conspicuousness (O’Cass & McEwen, 2004). Also, students are more susceptible and responsive to reference
group influence because of their age and accompanying inexperience or uncertainty towards certain risky situations, and because of their abundance of social contacts (i.e. social interaction), rigid group structure (e.g. fraternities) and accompanying visibility of one’s behavior, respectively (Deutsch & Gerard, 1955; Hochbaum, 1954; Park & Lessig, 1977).

Knowing that the above are strong predictors of conspicuous consumption, one may assume that conspicuous tendencies among young people are larger in general (O’Cass & McEwen, 2004). Bearing in mind that in general most students are young people, this implies a stronger than average conspicuous consumption response on (normative) reference group influence.

2.4 Summary

In explaining the different theoretical concepts, it became clear that narrowing down the construct of reference group influence to normative reference group influence from normative groups was necessary because of the field of interest of this study.

After explaining the theoretical relationship between normative reference group influence and conspicuous consumption, implications were made concerning the effects on students. It showed that students are likely to display a more severe reaction on the theoretical construct.
Chapter 3: Practical definition

In this chapter, the theory of the previous chapter is applied to consumers. By means of a literature review the consequences of this theory for the financial situation of students are examined. First, the general consequences of the theoretical situation are briefly investigated, then the possible financial consequences are explained and finally this is linked to students, the objects of interest in this thesis.

3.1 General effects of conspicuous consumption

3.1.1 Society

Conspicuous consumption has resulted in the consumption-oriented society we live in today (e.g. Chauduri & Majumdar, 2006). For society as a whole, consequences of conspicuous consumption have been examined before. In economic literature is showed for instance that conspicuous consumption can have a positive effect on society welfare by means of a tax on luxury products (Bagwell & Bernheim, 1996).

It has however also been found that in a society where happiness seems to be the main objective in life, a pattern of conspicuous consumption causes a decrease in overall happiness in the long run (Cooper, García-Peñalosa & Funk, 2001).

These general consequences of conspicuous consumption are of lesser interest in this thesis, but they do provide the fact that both positive and negative consequences seem to exist in the long and short run, which gives rise to the idea that on an individual level differences in consequences might vary even more. In other words, there might be no single-minded set of consequences
explaining the effect on individuals of conspicuous consumption caused by reference group influence.

3.1.2 Individual

In examining the general consequences for individuals, a restriction is made to normative reference groups and normative influence (i.e. utilitarian and value-expressive influence), as was done in the previous parts of this thesis. So, only the conspicuous consumption consequences from normative groups caused by normative influence are determined.

Now, reconsidering the way normative influence triggered conspicuous consumption, a division between positive and negative effects of this situation can be made.

Positive effects

By consuming conspicuously because of this normative influence, an individual is able to achieve and satisfy his social goals and needs (Escalas, Bettman, 2003). As a result, an individual’s apparent need to express and/or position himself might be satisfied, building and creating a more favorable self-identity (McCracken, 1989).

Secondly, an individual might also tighten his ties with the reference group he is interacting with or wants to interact with due to conspicuous consumption triggered by normative influence. When one consumes conspicuously to comply with group norms for example, the connection with the purchased brand increases, but also the connection with the reference group associated with that particular brand. Furthermore, one avoids association with groups not using that
particular brand, and to whom one perhaps not wants to belong at the same time (Escalas & Bettman, 2003, 2005). This too is signaled to the reference group.

Thirdly, when conspicuously consuming the right goods or services, a certain level of social status can be acquired with respect to a group of referents (e.g. Han, Nunes & Drèze, 2010). Irrespective of social class, this can turn out to be very fruitful. Moving up on the social ladder creates a more positive attitude towards an individual (e.g. Eastman, Goldsmith & Flynn, 1999), which in turn has many small or large social advantages. This may vary from a simple birthday invitation to being noticed by superiors.

**Negative effects**

Apart from positive effects, some negative effects may occur when individuals consume conspicuously fueled by normative influence.

What if the influence of normative groups is interpreted wrongly? Still, individuals enact in conspicuous consumption, but only to result in adverse effects. The failure in conveying the desired signals to referents may result in social disapproval (Wooten & Reed II, 2004). Lower self-esteem, social isolation, loss of status are some consequences likely to happen as a result.

Furthermore, conspicuous products have a tendency of labeling their users. When admitting to normative influence by consuming conspicuously, a closer association and relation with the referents from a particular group may occur, but this might also cause an alienating effect on society and its inhabitants in particular. Society as a community is split up into smaller, more isolated, sub communities, with conspicuous products as guidance (Firat & Venkatesh, 1995; Han, Nunes & Drèze, 2010). Individuals might interact less with people outside of their
reference groups, possibly causing prejudice, tensions and frictions between individuals or preventing them from experiencing new things.

Another effect may be the dropping out of individuals from the process of Veblen’s (1899) “keeping up with the Joneses”. Dropping out can be the result of discouragement. Discouragement may appear as a reaction on the continuous cycle of normative influence and conspicuous consumption (Rauscher, 1993). Consequences may be isolation and a lack of social interaction, for example.

3.2 Financial effects

Elaborating on the general effects by linking them to individual consumers’ financial situation results in a possible determination of financial consequences, direct or indirect, of normative influence via conspicuous consumption to consumers. A clear distinction between positive and negative financial effects has deliberately not been made, since both positive and negative effects may occur from one general consequence.

A favorable self-identity resulting from conspicuous consumption caused by normative influence might result in an increase in self-esteem (Escalas & Bettman, 2003; Greenwald, Bellezza & Banaji, 1988;). Self-esteem as such might not result in a better financial situation; it does however increase happiness, initiative, and perseverance (Baumeister et al., 2003). As a result, in both the short and long term, decision making behavior driven by these factors might result in a positive financial pay-off, but empirical evidence for this is missing.
A more (the most obvious and biggest?) direct effect is likely to be the immediate loss of funds because of the actual consumption process. Building, enhancing and verifying the self-concept via conspicuous products directly reduces cash available for other purposes. In the likelihood of financially dire straits for example, this process can cause financial difficulties.

Taking the second and third positive argument from the previous paragraph together, it shows that weak and strong ties among persons are developed. These ties are an important tool in growing a social network (Granovetter, 1973). Social networks in turn act as huge systems of information. Information that otherwise remained inaccessible can become accessible via weak or strong ties’ weak ties within a person’s social network (e.g. Granovetter, 1973). This can increase job opportunities, provide access to better jobs, and create a bargaining advantage for entrepreneurs, for instance (Lin, Ensel & Vaughn, 1981); all very fruitful in trying to make more money.

Considering the social disapproval argument; individuals whom are being disapproved don’t miss out on the effects of reference groups, nor do they stop valuing them. They do however enact in protective behavior against loss of approval (Wooten & Reed II, 2004). The accompanying low self-esteem and avoidable behavior concerning noticeable or desired impressions (Wooten & Reed II, 2004), might entail lesser opportunities on job promotion and hence lower expected salary in the long term.

Dropping out of the “conspicuous consumption triggered by normative influence” game, can temporarily result in a period with little interaction with normative referents concerning conspicuousness (Rauscher, 1993). This may cause a period of saving, which can be perceived as a positive consequence, enhancing financial possibilities. However, one may miss out on the
acquisition of weak ties, hence not fully utilizing their social network potential. Unaware, this might be disadvantageous concerning, for example, possible wealth-increasing job opportunities in the long or short term.

The alienating argument itself might fuel the subdivision of society, resulting in individuals profiting from a gain of strong ties within their groups (capable of providing more safety in times of economic downturns, for instance (Granovetter, 1982)), but losing on a loss of weak ties (hence, losing on valuable inaccessible, information concerning profitable job opportunities or business deals (Lin, Ensel & Vaughn, 1981)). Because of prejudice and alienation, individuals interact more within their group and less with outsiders. A trade-off between the gain on the strong ties and the loss on the weak ties should be investigated to determine what the exact financial consequences are.

### 3.3 Students

Of main interest in this thesis, students are a very specific group in society. Because of other than average characteristics (which?), it might be that the financial consequences as described above will differ for them.

First, social disapproval and dropping-out may also occur in student society, resulting in fewer ties and hence excluding individuals from potentially valuable information (Granovetter, 1973; Lin, Ensel & Vaughn, 1981). Due to high social interaction and less crystallized attitudes and senses of self, combined with strong cognitive skills (Peterson, 2001), this might be however a lot less likely or in any case less severe than generally expected, possibly resulting in little
negative or positive financial consequences. Empirical research might be needed to make strong inferences about this.

Now, for students as well, the most direct and noticeable effect of conspicuous consumption driven by normative reference group influence is the immediate loss of funds available for other purposes. For students, this direct effect may be more powerful, as was explained at the end of the previous chapter. In fact, research has shown that students focusing on appearance to attain self-worth (i.e. a favorable self-identity) experience more financial difficulties than students who do not (Crocker & Luhtanen, 2003). Most likely, this might be an effect of the strong normative influence among students (e.g. O’Cass & McEwen, 2004; Park & Lessig, 1977), resulting in conspicuous purchases to, for example, comply with group norms.

But possibly, the above might also have a positive effect on student finances in the long term when weak and strong ties in building a social network are reconsidered. Especially students, with strong presence of normative influences in their sub society (e.g. Park & Lessig, 1977), excellent referents from various backgrounds in society and higher education (now and in the future), and with high social interaction (e.g. Park & Lessig, 1977) should be able to eventually profit from the establishment and enforcement of ties. Being a homogeneous group (Peterson, 2001) within society it indeed might take greater effort to satisfy social needs in the student community, especially via conspicuousness of products or experiences, something which students are likely to enact in more than other persons (O’Cass & McEwen, 2004). But by spending an extra buck in order to comply or to stand out within the normative group, ties might be strengthened or established among referents, possibly resulting in additional future pay-offs.
3.4 Summary

This chapter shows that there might be positive and negative financial effects for students when it comes to consuming conspicuously as a result of normative reference group influence. Negative effects predominantly show in direct results of consumption; money can only be spent once, so spend it with care or face the risks.

Positive effects show more in indirect, possibly even unnoticeable, effects. For this, the development and consequences of a social network are of main importance. Because of giving in to normative reference group pressure and accompanying conspicuous consumption, ties may be established and reinforced, resulting in a larger network. This might probably turn out to be very profitable later in life.
Chapter 4: Conclusions

This chapter deals with the conclusion of this thesis. The problem statement will be answered and practical implications will be discussed. After that, limitations of this study and grounds for further research will be debated.

4.1 Conclusions

This thesis started with an everyday example of a man and an irrational purchase of some expensive pair of leather shoes he made. The situation in this example may sound familiar to a lot of people. Once in a while, most people probably make a purchase they really should not be making, but decide to do it anyway because it makes you look terrific and feel good. This example shows a situation like that; conspicuous consumption triggered by reference group influence.

This thesis aimed on providing insight in the consequences of consuming conspicuously because of reference group influence. In doing this, an explanation of reference group influence and conspicuous consumption was given, followed by a theoretical explanation of the relationship between the two concepts, where reference group influence was sized down to normative groups and normative influence.

After this, a cross-over literature review was done to delineate possible consequences of normative reference group influence via conspicuous consumption on consumers. Via some general consequences on a societal and individual basis, a set of consequences specified on an individual’s financial situation were determined. These were eventually reflected on students.
Now, in answering the problem statement:

**What are the consequences of reference group influence via conspicuous consumption for a student’s financial situation?**

A two folded answer can be given. On the one hand, normative reference group influence has, via conspicuous consumption, direct negative consequences for students and their financial situation. Buying conspicuous products as a result of complying with normative group influence in order to maintain or enhance appearances, for instance, reduces money available for other things, possibly causing financial problems (Peterson, 2001).

On the other hand a positive, indirect long term effect might be expected. By actively consuming conspicuously out of a reaction on normative reference group influence (risking financial problems in the short run) and thereby complying to that reference group, a strengthening of strong ties and a gain of weak ties might be likely to occur. This increases the value and size of a social network, providing better access to valuable information (Granovetter, 1973, 1982). This might increase a students’ financial successfulness (e.g. Lin, Ensel & Vaughn, 1981).

### 4.2 Implications

Implications resulting from this study might focus on the encouragement or discouragement of student loans by institutions, whether governmental or commercial. Advertisers of student-aimed conspicuous products/services or experiences may highlight the financial benefits, in order to attract customers. Companies might incorporate the outcomes of this thesis in the communication of business culture to attain higher attendance at company days or informal
drinks. Furthermore, by implementing conspicuousness as a positional tool aimed on their target audience in recruitment strategies, companies might be able to more effectively select employees. A final example of an implication of this thesis might be the increasing intensity in conspicuous consumption behavior from students, now knowing of possible future advantages.

4.3 Limitations

A number of limitations have risen during the course of writing this thesis. It has, for example, proven to be very difficult to find a suitable definition of reference groups. Many slightly different definitions exist in the extant literature, making it very hard to find the most satisfying one. Also, more recent literature mostly focuses on the description of one of the subtypes of reference group influence, which on their own are very hard to describe, because of different names for overlapping or the same constructs.

In some parts of this thesis, literature from other fields of research was needed. It proved difficult to find good-quality papers, primarily because of a lack of knowledge concerning the right quality journals. Because of this lack of knowledge, attempts to make a cross-over to other fields of research might not be as successful as anticipated.

Criticism can be founded with stating that there might be other factors than reference group influence affecting conspicuous consumption. This is at all not considered in this thesis. Also, only normative reference group influence is examined, completely ignoring the possibility of overlapping effects from comparative influence.
Furthermore, the entire research has been based on a literature review. This might have resulted in misinterpretation of sentences, ideas, constructs, and hence wrong inferences or assumptions. Comparing the different consequences in concrete financial terms has proven to be difficult and perhaps impossible. This limits the research in delivering one single-minded conclusion about financial effects of reference group influence via conspicuous consumption in clear, per saldo financial figures.

4.4 Future research

Grounds for future research are first of all an empirical study. Especially when aiming to make inferences about financial consequences, it is useful to have empirical data.

Susceptibility is a considerable factor in reference group influence (e.g. Bearden, Netemeyer & Teel, 1989, Clark & Goldsmith, 2006). It is left out in this thesis for simplicity and due to limited space. Future research could aim on including susceptibility as a moderator in the model and measuring its effect on conspicuous consumption patterns, for example. Also, possible other moderators seem interesting to investigate. In particular gender, culture and age (e.g. Chauduri & Majumdar, 2006; Elliott & Leonard, 2004; O’Cass & McEwen, 2004). For gender and age, a construction including susceptibility seems most interesting (Elliott & Leonard, 2004; O’Cass & McEwen, 2004). For culture, investigating the main forces behind reference group influence could be the most interesting part. There might exist interesting differences between, for example, Western and Asian culture in the rationales behind reference group influence (Wong & Ahuvia, 1998).
References


