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The Big Five personality traits, material values, and financial well-being of self-described money managers

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ABSTRACT

Previous research has linked personality traits, material values, and money management to savings, debt, and compulsive buying. To extend previous research, four online surveys examined the Big Five personality traits and material values of those who manage their money and determined the independent effects of money management on wealth, debt, and compulsive buying. Results suggest that (a) individuals who believe that material possessions can provide happiness manage their money less and (b) highly conscientious individuals manage their money more because they have positive financial attitudes as well as a future orientation. Further, money management is significantly related to increased savings, decreased debt, and less compulsive buying even after controlling for numerous socio-demographic and dispositional variables. In the Discussion we suggest that materialists may experience a 'pain of knowing' about their finances because money management may highlight the discouraging implications of their purchasing behavior.

1. Introduction

Over the past decade, millions of Americans have accumulated massive amounts of credit card debt accompanied by high interest rates, fees and fines. Credit card use in 2010 increased 50% from 2000 levels (US Census Bureau, 2010), with the average household carrying a debt balance of $10,678 (a 29% increase from 2000; see Chu & Acohido, 2008). As Americans have acquired more personal debt, the personal savings rate has declined from 8% in the 1980s to less than 4% in 2011 (US Department of Commerce: Bureau of Economic Analysis, 2011). Further, personal debt and decreased savings have impacted financial institutions, as a number of consumers took out adjustable rate mortgages with little to no money down, leading to massive foreclosures (Finke, Huston, Siman, & Corlija, 2005; Lang & Jagtiani, 2010). Thus, the dramatic shift in consumption over the last few years has had a devastating effect on individuals' personal finances and the economy in general. It has been proposed that a lack of money management (i.e., the process of budgeting, saving, investing, spending, and otherwise overseeing the use of money; see Godwin & Koonce, 1992) may be a major factor in maladaptive consumption as the inability to manage money has been found to predict debt above and beyond the impact of poverty (Lea, Webley, & Walker, 1995).

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In order to understand why some people do not manage their money, a number of studies have demonstrated that individual differences (Brandstatter, 1996; Brougham, Jacobs-Lawson, Hershey, & Trujillo, 2011; Warneryd, 1996) and financial values (Garoarsdottir & Dittmar, 2012; Walker, 1996; Watson, 2003) impact financial well-being. However, even as the Big Five personality traits are fundamental to understanding personality (John & Srivastava, 1999), research has not fully explored the Big Five personality profile of those who actively manage their money or the mechanisms through which Big Five personality traits impact money management. Also, while past research has suggested that money management is associated with less materialism (Garoarsdottir & Dittmar, 2012; Walker, 1996), these studies have not investigated the specific materialistic motivations (i.e., the importance of acquisition, striving for success, or the search for happiness) that lead to less money management. Finally, past research has not examined the independent effects of money management on financial well-being holding constant Big Five personality traits and materialism, leaving open the question of whether the root cause of financial well-being is the result of behavior (i.e., how individuals manage their money), personality traits, or the values that drive the pursuit of possessions (i.e., materialistic values).

Thus, the goals of this study are (a) to predict money management tendencies from Big Five personality traits and the individual components of materialistic values to determine what traits and material values independently predict increased money management and (b) to assess the independent effect of money management on wealth accumulation, debt accumulation, and compulsive buying.

1.1. The predictors and benefits of money management

The money management literature has primarily focused on the benefits of managing money. In addition to having less debt and more savings (Antonides, de Groot, & van Raaij, 2011; Chau, Chan, & Chan, 2004; Dowling, Corney, & Hoiles, 2009; Garoarsdottir & Dittmar, 2012; Kamleitner, Hornung, & Kirchler, 2011), individuals who successfully manage their money report more financial satisfaction (Dowling et al., 2009; Joo & Grable, 2004; Mugenda, Hira, & Fanslow, 1990; Parrotta & Johnson, 1998; Robb & Woodyard, 2011; Xiao, Sorhaindo, & Garman, 2006), less financial stress (Joo & Grable, 2004; Xiao et al., 2006), less compulsive buying (Garoarsdottir & Dittmar, 2012; Pham, Yap, & Dowling, 2012), and more overall life satisfaction (Xiao, Tang, & Shim, 2008). These benefits have produced an interest in knowing the predictors of active money management.

The investigation of the antecedents of money management have included financial knowledge (Antonides et al., 2011; Chang, Sun, & Shen, 2010; Godwin & Carroll, 1986; Grable, Park, & Joo, 2009; Mugenda et al., 1990; Parrotta & Johnson, 1998; Perry & Morris, 2005; Robb & Woodyard, 2011), future time orientation (Antonides et al., 2011), risk tolerance (Joo & Grable, 2004), financial attitudes (Parrotta & Johnson, 1998), and locus of control (Chang et al., 2010; Grable et al., 2009). However, because it has been proposed that personality traits and values predict time management (Claessens, van Eerde, Rutte, & Roe, 2007), researchers have acknowledged the importance of determining the relations between personality traits and financial values with money management (Garoarsdottir & Dittmar, 2012; Parrotta & Johnson, 1998; Pham et al., 2012; Walker, 1996).

1.2. The Big Five personality predictors of money management

Though past research has called for the investigation of specific Big Five personality traits (i.e., conscientiousness; emotional stability) and money management (Parrotta & Johnson, 1998; Pham et al., 2012), no study has examined these potential relations. Previous findings demonstrate that emotional instability (i.e., neuroticism) predicts more debt (Nyhus & Webley, 2001) and more instances of compulsive buying (Brougham et al., 2011; Dittmar, 2005; Mowen & Spears, 1999), while conscientiousness is linked to increased savings (Brandstatter, 1996; Warneryd, 1996), positive attitudes towards saving (Brandstatter, 2005), less instances of compulsive buying (Mowen & Spears, 1999), and never having been in debt (Webley & Nyhus, 2001). These results suggest that conscientious people have greater financial self-control, which has been found to predict both increased saving and decreased borrowing behavior (Warneryd, 1996). Considering these results, it seems likely that Big Five personality traits may have an independent relation with money management. However, past research has also suggested that financial attitudes and time orientation are related to personality traits (Brandstatter, 2005) and money management (Antonides et al., 2011; Parrotta & Johnson, 1998); these results suggest that Big Five personality traits may have an indirect (i.e., mediated) effect on money management. Therefore, we hope to determine if Big Five personality traits are related to money management, and if so, is this relation is direct or indirect.

1.3. The components of materialism and money management

Previous studies have demonstrated that materialists are willing to take on greater levels of debt (Ponchio & Aranha, 2008; Watson, 2003), have more positive attitudes toward debt (Pinto, Parente, & Palmer, 2000; Pirog & Roberts, 2007), report a higher willingness to use installment credit (Watson, 2003), and make more compulsive purchases (Dittmar, 2005; Roberts, Manolis, & Tanner, 2003) than non-materialists. Not surprisingly then, individuals who use fewer money management strategies are typically more materialistic (Garoarsdottir & Dittmar, 2012; Walker, 1996). However, it is unclear *why* materialistic individuals are not managing their money. Their lack of money management could be due to the conviction that possessions indicate success, the extent to which the acquisition of material goods is a primary life goal, or the belief that material possessions can provide happiness. We hope to extend previous findings by investigating the relationship between money management and the individual components of materialism (i.e., acquisition centrality, acquisition as the pursuit of happiness, and possession-defined success), which may be differentially related to money management.