



Credit cards in a Chinese cultural context—The young, affluent Chinese as early adopters

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ABSTRACT

This research examines the attitudes of early adopters towards holding and using credit cards, especially how the 'young and affluent Chinese' view credit cards, in the Chinese cultural context. The findings indicate that frequent users of credit cards are more inclined to agree that: they display traits of new product adopters; credit cards offer them greater convenience; and others regard them as being more au-fait with technology, and more financially aware. The research also reveals a fear of loss of financial control when using credit cards that may impede its rate of adoption in China.

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1. Introduction and context

The global financial crisis (GFC) has slowed but not halted the continued growth of the Chinese economy. Indeed in May 2010 the Organisation for Economic Co-operation and Development (OECD) predicted that China's economy will grow by over 11% in 2010 and slow to just over 10% in 2011 and China is now the second largest economy in the world, having overtaken Japan in 2010. The OECD also noted that Chinese consumers were making more of a contribution to this economic growth, as a result of Chinese Government initiatives to boost domestic demand, as exports have declined due to the GFC (English.news.cn, 25/06/2010). Indeed 2010 produced a strong increase in Chinese domestic demand, with total sales of consumer goods increasing by 14.8% from 2009, although the national savings rate was still over 50% of GDP (Gang, F. The Age.com.au, 3/02/2011)

A report (McKinsey Quarterly, 2009) suggested a new consumer paradigm for China and observed that, "relative to China's population and level of economic development, its consumers punch far below their weight". China's consumption-to-GDP ratio is 36%, only half that of the United States and about two-thirds those of Europe and Japan. The report postulates that the sources of China's low consumption rate are both behavioural and structural. China's households are very savings centric; the average Chinese family saves 25% of its discretionary income, about six times the saving rate for US households and three times the rate for Japan's. This frugality is compounded by structural features that restrict consumption's share of the national income, such as the Government's ability to channel Chinese savings

into infrastructure projects and/or support for state owned enterprises.

There are suggestions that the thriftiest of savers are the young and the old Chinese. Urban households headed by 25 year olds save about 30% of their disposable income, as do those headed by 60 year olds. (The Economist, October 3, 2009, p. 9) There are some cultural factors at work here, one of which is China's frayed social safety net, which causes the Chinese to save because they have to pay for education and health care. Also in a country, where as a legacy of the 'One Child Policy', young men considerably outnumber young women, there is research (Wei and Zhang, 2009) which suggests that households with sons accumulate assets, especially property, in order to compete in the marriage market. This raises the asset prices for everyone else, forcing them to save more as well and Wei and Zhang claim that this competition accounts for around half of the increase in the household saving rate between the years of 1990–2007.

It is also claimed that China's consumer finance industry lags far behind the economy as a whole (McKinsey Quarterly, 2009) and as a result the Chinese have limited credit options, with, "few choices in key product areas, such as auto loans, credit cards and personal loans". Whilst credit card issuance has increased in recent years, this is still for the majority of Chinese, an innovative product, which has been taken up by only the 'early adopters' and even here there are both structural and cultural impediments to growth.

This research has been carried out to investigate to what extent the young, affluent Chinese will be early adopters, of what is for China a relatively new product, the revolving credit card. Indeed as reported in Worthington (2003), the concept of credit (i.e. borrowing money) is itself a new innovation in the Chinese market, as is the concept of paying by a plastic payment card at the point of sale (POS). The backdrop to this research is that in the wider cultural

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context, China is very savings centric, rather than borrowing centric and very cash centric, rather than card centric, when it comes to payment at the POS.

Whilst China's credit card market experienced a rise in cards issued, to 230 million in 2010, the profitability per card is thought to be only US\$1 (Lafferty Group February, 2011). The vast majority of China's plastic payment cards are debit cards with no revolving credit line, and these debit cards are used primarily to access cash through ATM networks. Indeed by the end of 2010 there were in total, over 2.1 billion of these so-called 'bankcards' on issue in China, for a population of 1.3 billion. Thus, for both domestic and foreign lenders jockeying for a position in China's evolving consumer finance marketing, there are several keys to success (see McKinsey Quarterly Report, 2009).

First, aspiring lenders must recognise the diversity of the Chinese market and understand that China is a collection of local markets, each at different stages of development. For example, the Chinese designate cities into various tiers and the research reported below discusses the attitudes towards holding and using credit cards, in a Tier 3 city (Ningbo). Second, they must target their consumer lending products at the appropriate audiences. In the case of the credit card, one audience of interest is the 'young, affluent Chinese', as these are thought to be the most likely 'early adopters' of this product. The research reported below focuses on this segment of the marketplace, by conducting both qualitative and quantitative research, with both undergraduate and post-graduate students in Ningbo.

2. Literature review

Product and service innovations provide both challenges and opportunities for both academics and practitioners, especially when the marketplace has a unique and distinctive culture. This is certainly the case with a country such as China, where there is a very strong sense of the history and social norms of the Chinese people and hence where adoption of product and service innovations may not follow the accepted 'Western' paradigm. Consumer behaviour is strongly influenced by culture and Asian 'collectivist' cultures are thought to be different from Western 'individualistic' cultures, particularly so for China. To gain a better understanding of cultural differences, it is useful to examine the underlying values, beliefs and assumptions that underpin a culture. Hofstede (1980) identified four underlying dimensions of cultural values (power distance, masculinity/femininity, uncertainty avoidance, individualism/collectivism), although, given the time period of his research, he did not directly examine Chinese culture. Although Hofstede's cultural dimensions have subsequently been critiqued (Smith, 2006), they have offered a useful method for understanding national cultures. As an example collectivist cultures tend to be highly group oriented and personal satisfaction comes from having the respect of one's group. Thus fitting in with others and conformity are valued, and word of mouth about a product is relied upon, more so than media claims. Triandis (2002) compared relationships in collectivist cultures with those in the more individualistic Western cultures and found that social behaviour relationships are expected to last a longer time in collectivist cultures. Hence referrals from one's relationship group is a very effective way of reducing uncertainty or risk and also of rapidly expanding new product trial and acceptance.

Hofstede's book, whilst published in 1980, was based on a consulting project that he and his European colleagues conducted for IBM in the 1960s and it has been subsequently critiqued by amongst others, Oyserman, et al (2002) and Miller (2002). They doubted the value of characterising the variability of nations in terms of dimensions and argued for greater use of more

qualitative analyses of culture. The Global Leadership and Organisational Behaviour Effectiveness (GLOBE) project, which focused on culture and leadership in 61 nations (Javidan and House, 2001), was an attempt to improve on Hofstede's pioneering work and it involved 150 Country Co-Investigators from around the world, focusing on a specific culture in which they had expertise. Their activities included collecting both quantitative and qualitative data, ensuring the accuracy of translated questionnaires and contributing insights from their unique cultural perspectives to the GLOBE project. The qualitative research included interpretations of local behaviours, norms and practices, via content analysis of data derived from interviews, focus groups and published media. Smith (2006) in his review of both Hofstede and the GLOBE project discusses the methodological problems faced by both Hofstede and the GLOBE researchers and concludes that in cultural research, there are no simple solutions. He suggests that continued surveys of cultural differences should use a broad range of methodologies and that researchers need to grasp the key contribution of context toward cultural maintenance and change at individual nation level analyses. Thus the research into credit cards in China that is reported below is an attempt to explore context, at a nation level analysis, using both quantitative and qualitative research methodologies.

The dominant theoretical framework used by academics to analyse the perceived attributes of an innovation has been Rogers (1995) model concerning the diffusion of innovations. Subsequent studies have resulted in the inclusion of the additional dimension of perceived risk (Lockett and Littler, 1997) and this is particularly important in the Chinese cultural context, where the adoption of any new innovation comes with it a risk of social embarrassment should it proved to be ill-judged. Research by Takada and Jain (1991) found that innovation diffusion was stronger in countries that are high-context and homophilious, such as Asian-Pacific countries, relative to countries such as the United States, which are low-context and heterophilious. High-context refers to a culture where much of the communication about a new innovation resides in its context, as opposed to explicit messages and homophilious implies that such communication takes place among similar individuals. Whilst there have been a large number of studies on the differences between countries in their approach to the adoption of innovation, Mahajan and Banga (2006) point out that there is a knowledge gap about diffusion in developing countries and whether the same patterns and the same forces are at work in developing countries as they are in developed countries. The research reported here is intended to begin to fill that knowledge gap.

Much of the existing diffusion literature has generally considered modelling the diffusion and adoption of services, as if they were durable goods, including the adoption of online banking (Krishnan et al., 2000; Littler and Melanthiou 2006). However the services sector is a constant introducer of new products and indeed there is much debate about whether marketers, given the predominance of the services sector in most developed economies, should now adopt the service-dominant logic (Vargo and Lusch, 2004) as the new paradigm of marketing. The credit card is a tangible product, in that a piece of plastic is held and used by cardholders, but it also provides a whole range of services to cardholders, such as immediate access to credit; payment at the point of sale (POS) and the ability to revolve the credit by making less than the full payment, at the end of the account period. The research on credit cards in China can then make a contribution to the adoption of a new service product in a developing economy, with a strong cultural context.

The research reported below builds on the literature and existing research, as reported above, and places it in the context of a unique and distinct social system that is China. It concerns an

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