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Financial Constraints: A Review of Concepts, Impact Mechanisms, and Individual Roles

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Abstract

Financial constraint refers to the feeling that an individual feels when their financial situation limits their desire to consume. As an important research field, financial constraint has attracted widespread academic attention. This article provides a review of the concept, impact mechanism, and impact on individuals of financial constraint. Firstly, we introduced the definition and connotation of financial constraint, and explained its importance in enterprise decision-making and economic development. Then, we discussed the impact mechanism of financial constraints. Next, we explored the impact of financial constraints on individual non consumption and consumption levels and summarized the main findings of relevant research. Finally, we have provided prospects for future research directions and emphasized the potential value and importance of studying financial constraints.

Keywords

Financial constraint; Impact mechanism; Individual role; Consumer; Consumption level.

1. INTRODUCTION

In daily life, consumers often experience a sense of financial constraint, which limits their desire to consume due to their financial situation (Paley et al., 2019; Tully et al., 2015). Existing research has shown that financial constraint is a subjective psychological feeling of consumers, which is a balance between their own financial situation and consumption desire. Both high- and low-income groups may feel financial constraint (Paley et al., 2019; Tully et al., 2015). Therefore, compared to the concept of objective financial scarcity, subjective financial constraint more accurately reflects individual financial pressure. However, in the past, most studies have focused on the impact of objective financial scarcity (such as poverty) on consumer behavior, lacking exploration of subjective financial constraints. In the context of consumers generally feeling financial constraints, understanding the impact of financial constraints on consumer behavior is of great practical significance for enterprises.

2. DEFINITION AND CONNOTATION OF FINANCIAL CONSTRAINT

Financial constraint refers to the feeling that an individual feels when their financial situation limits their desire to consume (Tully et al., 2015). Like other concepts in relevant literature such as poverty, resource scarcity, and financial scarcity, financial constraints reflect consumers' poor financial situation. The difference is that the level of individual financial constraint does not necessarily indicate poverty, but rather emphasizes the limitations and constraints of existing

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financial conditions on expected consumption, which is a relatively subjective psychological state (Tully et al., 2015). Whenever consumers' expected consumption exceeds their current financial capacity, they will experience a sense of financial constraint.

Existing studies have shown that poverty can harm individual development, leading to low levels of education, poor health status, and less well-being (Belle and Doucet, 2003; Phillips and Chin, 2004). However, there is no understanding of the more specific impact of financial constraints, which may be due to different definitions of financial constraints in different studies. Although such studies focus on the limitations of financial constraints on consumer behavior, there are significant differences in the research on specific financial constraints and behaviors in different literature. The existing research focuses on four perspectives, including resource scarcity, choice constraints, social comparison, and environmental uncertainty (Hamilton et al., 2019).

2.1. Resource Scarcity Perspective

From the perspective of resource scarcity, financial constraints refer to individuals lacking the resources needed for consumption. In economics, resources include both the capital invested by consumers to obtain the desired products or services, as well as other production inputs (such as time). Therefore, resource scarcity refers to the actual or perceived resource scarcity of consumers (Cannon et al., 2019; Hamilton et al., 2019; Roux et al., 2015). For consumers, a lack of money is the most typical manifestation of resource scarcity, and a lack of money needed for consumption or long-term financial scarcity can increase consumers' attention to monetary resources (Mullainathan and Shafir, 2013; Sharma and Alter, 2012).

2.2. Selecting Constrained Perspectives

The study of choice constraints focuses on the limitations of financial constraints on consumers' ability to choose products and services during the consumption process (Botti et al., 2008). Financial constraints limit consumers' choices of products and services that they cannot afford. When there are a small number of selectable products in each product category, it will evoke consumers' choice constraints, and a lack of choice will increase consumers' sense of constraint (Brehm, 1966). Although scarce resources can easily lead to a lack of consumer choice, a lack of choice is not equivalent to a lack of money. For example, the shopping experience of consumers in stores that only provide two types of fruits (with choice constraints) is different from shopping on a limited budget (with scarce resources) in stores with sufficient choices (Hamilton et al., 2019).

2.3. Social Comparison Perspective

Social comparison is also one of the reasons for consumer financial constraints. Previous studies have shown that obtaining status and identity is one of the basic motivations for individual consumption (Griskevicius and Kenrick, 2013), so consumers always compare their own status with others (Corcoran et al., 2011). Moreover, social comparative studies have shown that consumers mainly tend to compare upwards (Gerber et al., 2018), indicating that consumers are more inclined to compare themselves with wealthy individuals. Therefore, financial constraints can weaken consumers' ability to make favorable social comparisons. Unlike the views of resource scarcity and choice scarcity, social comparison emphasizes the social dimension of financial constraints. When consumers realize that other consumers have more resources subjectively or objectively, it stimulates them to make social comparisons. For example, when consumers shop in high-end shopping malls, financial constraints make consumers realize their place with others the difference between position and identity affects their choices (Hamilton et al., 2019).

2.4. Environmental Uncertainty Perspective

Environmental uncertainty is also an important factor affecting financial constraints. Existing research suggests that experiences of financial constraints are often accompanied by more frequent job changes, family breakdowns, exposure to violence, and a more chaotic life (Mittal and Griskevicius, 2014). Therefore, consumers facing financial constraints often find it difficult to predict the future, and predictability is an important dimension of the environment (Ellis et al., 2009). For example, when the stock market is highly volatile, it often indicates an economic recession, making consumers uncertain whether they have sufficient resources to consume in the future (Hamilton et al., 2019). Therefore, unlike the first three perspectives, environmental uncertainty emphasizes the environment when making consumption decisions.

As mentioned earlier, the reasons that trigger individuals' sense of financial constraints vary, but from the results, whether it is resource scarcity, choice constraints, social comparison, or environmental uncertainty, consumers will feel financial constraints. In addition, not only does low-income trigger financial constraints, but medium to high income may also feel financial constraints (Fan Yafeng and Jiang Jing, 2017; Paley et al., 2019; Tully et al., 2015). In summary, this study believes that distinguishing different types of financial constraints constrains current research. In the context of widespread economic pressure, using a more general definition of financial constraint is of great significance for theoretical enrichment and practical innovation.

3. RESEARCH ON THE INFLUENCE MECHANISM OF FINANCIAL CONSTRAINTS

At present, no scholars have systematically elaborated on the impact mechanism of financial constraints. In the self-regulation model proposed by scholars Cannon et al. (2019) based on the perspective of control, individuals respond to resource scarcity by stating that under the path of reducing scarcity, consumers have a high level of control and expect to reduce or eliminate resource scarcity through behavior. On the contrary, under the control recovery path, consumers are in a state of low control, feeling the expectation of reducing or eliminating the threat of resource scarcity to personal control, rather than eliminating the scarcity itself. In view of this, this article elaborates on the psychological mechanisms of financial constraint from the perspectives of alleviating financial constraint and controlling recovery paths.

3.1. Path to Relieve Constraints

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From the perspective of the path to alleviate financial constraints, consumers who experience financial constraints will focus their attention on scarce resources and alleviate financial constraints by prioritizing, acquiring, or consuming scarce resources (Cannon et al., 2019).

The sense of financial constraints causes consumers to focus on how to balance limited resources. For example, when a financially constrained consumer considers whether to spend money on a certain goal, the same money may also achieve other goals. Choosing one means giving up the other, so consumers increase their attention to opportunity cost (Shah et al., 2015). Similarly, when deciding how much to pay for certain products (such as a glass of beer), low (compared to high) income participants focus on cues directly related to the purchase, such as price quality (Shah et al., 2015). In addition, financial constraints also increase arousal (Zhu and Ratner, 2015), not only limiting attention span (Eysenck, 2012), but also selectively processing valuable information (Pham, 1996).

The sense of financial constraints also changes individuals' resource allocation strategies. For example, scholar Fernbach et al. (2015) argue that when participants have high financial constraints (compared to medium to low levels), they will adopt higher priority (higher

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efficiency) resource allocation strategies. In addition, consumers also have the motivation to eliminate financial constraints. For example, advertising leads for limited time purchases indicate that the product is currently easy to obtain but may not be available in the future. Therefore, consumers avoid the impact of scarce resources in the future by acquiring resources in the present (Cialdini, 2009).

3.2. Control Recovery Path

From the perspective of control recovery path, financial constraints can also threaten consumers' sense of control. To restore personal control, consumers usually gain a sense of security in areas outside of scarce resources (Cannon et al., 2019).

Research in different fields has shown that resource scarcity weakens individuals' sense of control. For example, product selection constraints limit individuals' psychological freedom, i.e., their ability to choose freely (Clee and Wicklund, 1980), while insecurity in the economic environment leads to a lack of control (Chou et al., 2016). Similarly, individuals living in poor socio-economic conditions during childhood are also prone to a lack of control (Mittal and Griskevicius, 2014). Seeking to establish a sense of security is an important means for individuals to regain their sense of control. Security refers to a sense of security and happiness that protects oneself from uncertain future influences (Rose and Orr, 2007). A sense of security can be satisfied through material, social, and symbolic means (Debenedetti et al., 2014). For example, a sense of security can be achieved through physical resources such as money (Rose and Orr, 2007), food (Allen and Wilson, 2005), and brand and material wealth (Rindfleisch et al., 2009). Security can also be achieved through nonphysical means, such as rituals (Phipps and Ozanne, 2017), familiar places (Debenedetti et al., 2014), and social support (Xu et al., 2015). In the field of consumer behavior, compensatory consumption is a common way to restore an individual's sense of control (Woodruffe, 1997). For example, Tully et al. (2015) found that financial constraints increase participants' desire for material resources; Chaplin et al. (2014) demonstrated that poverty increases individuals' desire for material wealth. Similarly, income inequality increases individuals' desire for status and identity products, such as designer brands and expensive jewelry (Walasek and Brown, 2015). In addition, consumers who feel financial constraints can also restore a sense of control through intangible consumption (Mandel et al., 2017). For example, the metaphor of scarcity can increase individuals' consumption of calorie foods to gain a sense of security (Levontin et al., 2015). In addition, consumers with poor economic conditions will use diversification seeking behavior to restore their sense of personal control (Yoon and Kim, 2018).

On the other hand, the restoration of control by individuals can also explain non consumer behavior. For example, individuals lacking a sense of control tend to view the world as a coherent, meaningful, or structured way to restore a sense of control (Landau et al., 2015). Research on resource scarcity has found a close relationship between the lack of control and thinking patterns. For example, researchers have shown that resource scarcity leads to stronger creativity (Mehta and Zhu, 2016), enhancing a sense of control through meaningful explanations formed through different cognitions. Similarly, scarcity of resources reinforces stereotypes (Krosch and Amodio, 2014), which enables individuals to form structural and consistent interpretations of society.

4. THE AFTEREFFECT OF FINANCIAL CONSTRAINTS

Research has shown that financial constraints have a significant impact on individual psychology and behavior. The following will explain the role of financial constraints on individuals from both non-consumer and consumer perspectives.

4.1. Impact on Non-consumption Level

Looking back at previous studies, the impact of financial constraints on individual non consumption levels can be summarized into three major aspects. Firstly, financial constraints can weaken an individual's sense of control. For example, uncertain economic environments in childhood can lead to lower levels of control among individuals (Mittal and Griskevicius, 2014); Economic insecurity can cause individuals to lack a sense of control, thereby increasing the frequency of physical pain (Chou et al., 2016); Similarly, poverty can also hinder individuals' cognitive abilities (Mani et al., 2013). Secondly, financial constraints can easily lead to negative emotions among individuals. For example, unhappiness, stress, decreased life satisfaction, and even physiological pain (Chou et al., 2016; Hillet al., 2012; Laran and Salerno, 2013; Sharma and Alter, 2012). Finally, financial constraints also have a significant impact on individuals' cognitive thinking. For example, Levontin et al. (2015) found that metaphors of resource scarcity can lead to individuals participating in self attention behaviors (such as donations); The clues of scarce resources can trigger individuals' competitive thinking, thereby increasing their aggressiveness (Kristofferson et al., 2017; Roux et al., 2015); Similarly, the scarcity of economic resources can exacerbate the tendency towards racial discrimination (Krosch and Amodio, 2014). However, recent studies have also shown that financial constraints have potential benefits, which can stimulate individuals' creative thinking (Mehta and Zhu, 2016). From this, financial constraints have a double-edged sword effect on the non-consumption level of individuals, producing both negative and potentially positive effects. This study suggests that the reason for the conflict in previous research results may be the inconsistent definition of financial constraints used by different scholars, and there is an urgent need for a unified perspective to expand current research on financial constraint perception in the future.

4.2. Impact on Consumption Level

Compared to non-consumer aftereffects, research on the impact of financial constraints on consumption is relatively scarce. Existing research suggests that financial constraints directly affect resource allocation in the consumption decision-making process. For example, Shah et al. (2012) found that resource scarcity can alter individuals' attention allocation, making them more focused on the most urgent issues at hand. Similarly, Fernbach et al. (2015) found that resource constraints can cause individuals to prioritize decision-making goals, focusing on key goals and abandoning less important ones. These studies indicate that individuals who feel financial constraints allocate limited resources to different priorities, however, the decision-making process is not entirely rational. For example, resource scarcity may lead individuals to make short-sighted decisions such as excessive borrowing and greater risk-taking, leading to a vicious cycle (Griskevicius et al., 2013; Shah et al., 2012).

In addition, financial constraints also play an important role in consumer behavior, with compensatory consumption being the main aftereffect of financial constraints. Compensatory consumption refers to consumers compensating for psychological deficiencies or responding to self-threats by purchasing products (Rucker and Galinsky, 2008). Previous studies have shown that compensatory consumption is an important way for individuals to cope with financial constraints, such as purchasing unique products or status products, increasing food consumption, preferring substances over experiential products, and seeking diversity (Briers and Laporte, 2013; Sharma and Alter, 2012; Tully et al., 2015; Walasek and Brown, 2015; Yoon and Kim, 2018). Most of the above studies are based on the perspective of resource scarcity to explore how resource scarcity affects individual consumption decisions. However, the academic community lacks direct exploration of subjective financial constraints. Looking back at previous studies, only three domestic and foreign literature directly explored subjective financial constraints. Tully et al. (2015) found that individuals with a sense of financial constraint preferred material products over experiential products; Paley et al. (2019) explored the impact of financial constraints on consumer word-of-mouth; In China, only Fan Yafeng and Jiang Jing (2017) found that financial constraints increase consumer diversification. In summary, there is currently a lack of direct research on financial constraints in the academic community. In the context of consumers generally feeling economic pressure, exploring the impact of financial constraints on consumers has important practical significance.

5. CONCLUSION

Financial constraint, as an important research field, is of great significance for understanding corporate decision-making and economic development. This article provides an overview of the concept, impact mechanism, and impact on individuals of financial constraint. Future research can further explore the differences in financial constraints among different countries, types of enterprises, and industries, as well as the interrelationships with factors such as corporate governance and policy environment. In addition, researchers can use more quantitative and qualitative methods, combined with empirical data and case studies, to deeply analyze the mechanism and economic impact of financial constraint.

For practical management and policy formulation, understanding the concept and influencing factors of financial constraint is of great significance for providing effective financial support and promoting enterprise development. Enterprises can alleviate the impact of financial constraints by optimizing their capital structure, seeking external financing channels, and improving business performance. Governments and financial institutions can also formulate corresponding policies and measures to provide more financing support and financial services to help enterprises overcome financial constraints and promote sustainable economic development.

In summary, financial constraint as an important research field is of great significance for understanding corporate behavior and economic benefits. A thorough study of the concept, influencing factors, and economic consequences of financial constraint will help improve the accuracy and effectiveness of enterprise decision-making, and promote economic stability and sustainable development.

Future research can further explore financial constraints from the following aspects. Firstly, empirical data from different countries and regions can be combined to compare the differences in financial constraints and their impact on economic development. Secondly, further research can be conducted on the impact mechanisms and differences of financial constraints on different types of enterprises (such as small enterprises, medium-sized enterprises, and multinational enterprises). In addition, the relationship between financial constraints and factors such as corporate governance and policy environment can be explored to better understand the impact of financial constraints on corporate behavior and economic benefits.

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