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A Psychological- Institutional Approach to Consumers' Decision Making



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1. Introduction

This opening chapter introduces four key points of this approach: motivation, proposal, key issues, and structure. “Motivation” presents the personal thrust to elaborate this study. “Proposal” emphasizes how I elaborate the proposal of the study. “Central and important issues” highlights the relationship of this approach with Veblen’s conspicuous consumption, the vision of the firm that underlies the discussion, and what this study offers as an original. “Structure” presents the organization of the study.

Motivation – This study was first time elaborated as my PhD thesis. The motivation for the elaboration of my thesis extends my motivation to pursue and complete my MPhil dissertation. It starts with how Economics has been introduced to me. I have learned Economics through the usual way. My BA course was in this field, then my MPhil, and, finally, my PhD. Since the beginning, the Economics introduced to me was considerably based on its mainstream. This can sound very strange for someone who chose to study a Social Science, as it still does to me. That impression made me ask myself, in the beginning of my Bachelor course, if I had done an apt career choice. In my fourth semester, I felt more at ease as optional courses introduced to me other approaches in Economics. At that moment, the evolutionary approach of the firm caught my attention because of my previous interest in microeconomics. When I decided to start an MPhil, and then a PhD, I had developed an interest in what can be called heterodox microeconomics.

Heterodox microeconomics analyses, among other things, the impact of technology on “firms’ behaviors”. Actually, heterodox microeconomics virtually means the study of the firm. Surprisingly, consumer’s decision making can be understood as a forgotten issue by both the mainstream and heterodox microeconomics. Perhaps that is why it always caught my attention. I used to think about the reasons why there were so few studies about such an important issue. Hence, in the second part of my MPhil I decided to write my dissertation about an “institutional approach to consumption”. The goal was to put elements of the New Institutional Economics and the Original Institutional Economics (or simply Institutional Economics) together in order to analyze a “consumption transaction” – a transaction between consumers and firms. In my perspective, the result was really disappointing. As a teenager who carries his traumas to his adult life, I carried my disappointment with the dissertation work to my PhD.

Proposal – The starting proposal of my thesis had a focus on the analysis of the consumers’ decision making taking into account their socialization and how firms can interfere in such process in an attempt to influence their decisions. At that moment, the central theoretical background I had in mind was Institutional Economics. Consumers’ decision making would be analyzed by Institutional Economics plus psychoanalytical elements. As a result, the thesis would deal only with theories. Its intention was to build an institutional approach to consumers’ decision making with further psychoanalytical fundamentals, considering also how firms could influence their decisions. With this proposal, CAPES granted me a scholarship to spend two semesters as a visiting PhD student at the University of Groningen, in the Netherlands.

In my first week at the University of Groningen, I presented my proposal and what I had already developed to my foreigner adviser, Prof. Wilfred Dolfsma. At that moment, I had done a revision of Institutional Economics and of psychoanalysis (strongly based on Freud’s and Lacan’s writings), and prepared a list of connections between those theoretical frameworks that I would like to develop. Prof. Dolfsma’s feedback came with many questions about why I was dealing with psychoanalysis as a basis for Institutional Economics. The result was a couple of weeks of readings about psychology in an attempt to answer those questions.

During those weeks I was able to answer some of the questions, while others showed me that psychoanalysis would not give me all the bases I expected for Institutional Economics. The reason for that is that the institutional approach of consumers’ decision making is strongly based on Thorstein Veblen’s conspicuous consumption. Veblen is considered one of the founders of Institutional Economics. In the book in which he introduced his approach to consumption, *The theory of the leisure class* (1899), Veblen elaborated a very complex theory that brings together elements of Economics, Sociology, Psychology, Anthropology, and of Darwinian Evolution. In *The theory of the leisure class*, Veblen deals with different psychological paradigms, one based on instincts and the other based on cognitive issues. So, my original proposal was focused on just one of those paradigms.

As a consequence, with the agreement of my advisers, Prof. Huáscar Pessali and Prof. Wilfred Dolfsma, I reviewed my thesis proposal. This revised version was the real seed of the thesis you are about to read. In order to deal with the cognitive issues of Institutional Economics, another psychological element had to be considered: the Psychological Social Learning Theory, also known as Social Cognitive Theory. This psychological approach does not only strictly rely on descriptive cognitive studies, but it also takes into account how people develop their cognitive abilities. According to the Social Cognitive Theory, people vicariously learn how to behave by observation of models of behaviors and their reinforcements.

With the benefit of those suggestions, the new proposal has at its core introducing psychological fundamentals of Institutional Economics in order to highlight some relevant aspects of consumers' decision making and of how firms can interfere in that process. The psychological basis stands on Freud's writings and Social Cognitive Theory. The consumer approach strongly relies on Veblen's conspicuous consumption plus other posterior and compatible studies. Here, the analysis of firms is closer to an analysis of entrepreneurs, being inspired on what can be called as the "classical evolutionary approach of the firm". This classical approach means an analysis centered on Joseph A. Schumpeter's and Edith Penrose's writings. Some studies of Schumpeter's and Penrose's followers and other compatible studies complement the analysis.

Prof. Dolfsma and other professors at the University of Groningen with whom I had the chance to discuss the developments of my thesis also encouraged me to enforce my theoretical arguments with illustrations. This has been done in Chapter 5 in order to probe empirical cases with the analytical apparatus proposed.

Key issues – As previously emphasized, the institutional approach of consumers' decision making relies on Veblen's approach. Accordingly, Veblen's conspicuous consumption is the starting point and an important guideline for the argument here developed. It is possible to understand this study as an attempt to improve the institutional approach of consumer's decision making. In doing so, this study can also be understood as a contribution to updating Veblen's approach of consumption. This contribution is centered in a special subject: the social creation of what consumers comprehend as the goods they consume. It attempts to offer a theoretical background to analyze how consumers develop what they think goods are.

This study highlights two different but complementary psychological foundations to understand how a concept of a good is inserted in consumers' decision making. This gathering of psychological insights can be seen as an original output of the study as those elements are usually strangers to Institutional Economics.

This approach also offers insights about how a firm or an entrepreneur (seen as a firm's incarnation) can interfere in consumers' decision making. This is also an important output of the study, as it makes use of a specific approach of the firm/entrepreneur. My main concern here is the consumers' decision making, and thus firms'/entrepreneurs' actions that can interfere in or influence consumers' decision making are relevant. This, of course, is a very partial reading of firms'/entrepreneurs' actions, forcefully adopted in accordance with my analytical focus. Hence, the approach of the firms'/entrepreneurs' actions derives from a specific end: to analyze consumers' decision making. The relationship between firms/entrepreneurs and consumers for this purpose means that a bridge can be

build between what has been called Evolutionary Economics and Institutional Economics.

There is a couple of important institutionalist studies about the firm/entrepreneur, such as Veblen's *The Theory of Business Enterprise* (1904) and John Kenneth Galbraith's *The New Industrial State* (1967). Despite the importance of those studies, they analyze the inner part of the firm. Differently, here there is the necessity to analyze the relationship between the firm and consumers. It is thus essential to emphasize how the firm deals with the institutions around it. In my perspective, this subject was in the agenda of the "Classical Evolutionary Economics" – next paragraph illustrates this point. The topic, however, has not been further developed.

In the second chapter of Joseph A. Schumpeter's *The Theory of Economic Development* (1911), he emphasized that it is a task of the innovative entrepreneur to teach and manage consumers. Edith Penrose in her *The Theory of the Growth of the Firm* (1959) also highlighted such point with her concept of plasticity of consumption, which means that the entrepreneur can have the capacity to promote changes in the consumers' decision making. Regardless of those significant insights, Schumpeter's and Penrose's followers centered their analytical efforts in other issues than firms/entrepreneurs-consumers relationships. Schumpeter's followers main, or perhaps only, focus has been on how technology can affect the productive process. Penrosians' analytical focus, on their turn, has been on the resource-based approach of the firm (see Foss 1999 and 2006).

Schumpeter's and Penrose's analyses are more embracing than their followers. Their wider perspectives are applied here to the analysis of the firms/entrepreneurs-consumers relationships, which is not a simple task. The study focuses on how consumers build their decision making. Consequently, the approach of the firm here introduced highlights only the elements necessary to analyze consumers' decision making. In such perspective, a firm is seen as a bunch of productive resources that are controlled and organized by an entrepreneur. In a simplification about how decisions are made within the firm, the entrepreneur represents all of its decision making levels.

As the entrepreneur is the final voice in the decision making of the firm, attempts of the firm in interfering in consumers' decision making strictly relies on the entrepreneur. "Actions of the firm" result from the entrepreneur's abilities to deal with the productive structure of the firm and the elements that compose consumers' decision making. Therefore, the entrepreneur's behavior and decision making are important elements to analyze "firm's behavior and decision making". However, entrepreneur's issues are not the only material to a study of the firm. How the entrepreneur deals with the elements of the productive system of the firm – such as how other employees executes their tasks – are also central to

“firm’s behavior and decision making”. Hence, the entrepreneur, as the decision maker of the firm, has two main tasks. One is to cope with elements inside the firm to organize the productive process. The other is to cope with elements outside the firm to interfere on consumers’ decision making. The latter is taken into account by this study, but not the former.

Structure – This study unfolds in five other chapters. Chapter 2 introduces some key connections between Veblen’s and Freud’s writings, looking for more details about the role of the consumer in Veblen’s approach. Such connections are found when inner forces to act and the socialization process lead to consumers’ decision making (and consequent behaviors). Chapter 2 also deals with similarities between Veblen’s and Freud’s concepts of instinct and how they complement each other to understand how instincts are put in practice. One relevant case explored is how private properties become purposes for instinctive impulses and, thus, how private properties are incorporated in decision making. Such logic is applied to Veblen’s conspicuous consumption, emphasizing the relationship between consumers and objects of consumption.

Chapter 3 highlights Social Learning Theory as a psychological basis for Institutional Economics. It focuses on the relationship between people and institutions in a behaviorist way, but going beyond strict stimulus-behavior conditions. Although Social Learning Theory can be considered behaviorist, it bears no relation to the so-called radical behaviorism in psychology. For the Social Learning Theory, stimulus-behavior relationships are based on learning through vicarious observation and cognition. As such, people are driven neither by inner forces nor by the environment alone. There is a continuous reciprocal interaction between people and the environment, occurring by vicarious, reinforcing, and symbolic processes.

Chapter 4 brings the discussion of Chapters 2 and 3 together, in an attempt to propose elements for a more inclusive institutional approach of consumers’ decision making. Chapter 4 introduces individuals-goods relationships – as emphasized in Chapter 2 – taking into consideration an environment where consumers vicariously learn how to consume – as discussed in Chapter 3. The main issue is to stress that the relationships consumers create with goods are mediated by vicarious learning processes in a society composed by institutions. In this logic, a good is not only a physical object but also a set of meanings. How meanings of goods are created and reviewed are also relevant to comprehend consumers’ decision making.

Chapter 4 also considers that firms have a large interest in comprehending how to deal with consumers’ conceptual framework, as they intend to (1) introduce their interest into consumers’ decision making, or (2) build the concept of their goods accordingly. Therefore, that chapter also presents an approach of