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Psychological Foundations of Decision-Making in the Field of Financial Activity

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Abstract--The article examines the psychological foundations of decision-making in the field of financial activity. It was concluded that the psychological foundations of the formation of financial self-control are based on personal perception of the situation with the planning and distribution of finances. One's own awareness of the process of the need to organize financial control for oneself as such is more effective than other borrowed strategies. Having come to the conclusion that it is necessary to control their financial income and expenses, a person can create a system for himself that will allow him to form his own budget, make financial decisions in a timely and competent manner, as well as develop his own financial behavior strategy that makes it possible to build a progressively developing

system of expenses and financial income. Financial self-discipline strategies are used spontaneously and often. However, when it comes to the effectiveness of these strategies to achieve financial goals, the personal strategies that people have already used outperformed the strategies suggested to them in the study.

Keywords--decision-making mechanism, financial activity, financial decisions, influencing factors, psychology.

Introduction

Today, financial planning issues are extremely relevant for all residents of both our country and other states. Forming your own budget is a significant issue that is often not solved in full, as it is not considered important and significant by some people. The result of this frivolous approach to the problem of planning and distribution of finances is the following: the credit burden on citizens is growing, resulting in a high level of non-payments on credit obligations, a series of bankruptcies of individuals and legal entities, as a result of which banks withdraw from people's property apartments which are mortgaged, cars and modern household appliances, bought on credit, etc. All this has a negative impact on the well-being of people who may suddenly lose the most necessary things or may be left without a roof over their heads. Financial planning in this way is a necessary measure that can reduce the risks of financial distribution and limit the circle of consumers who are thoughtless about the distribution of their own financial resources. Experts note that sometimes it is psychologically difficult to deny yourself the purchase of a particular item or real estate object. While purchasing an expensive item on credit, people often do not calculate their financial capabilities or do not consider it necessary to ensure the prospects of payments for an already completed purchase, again turning to the bank for lending another purchase. In this regard, each person needs to develop and implement their own strategy of financial self-discipline, which will allow them to plan both financial receipts and costs carefully (Bolier et al., 2013). However, various psychological factors play a significant role in the formation of this strategy, on the basis of which it is built. Many people believe that they can use a ready-made self-discipline strategy by applying it to their life situation. However, it is often impossible to do this because of psychological personal characteristics, since for each one these or other factors of self-discipline have varying effects (Fletcher & Wagstaff, 2009; Moran, 2009).

Method

When writing this article, an analysis of sources was carried out within the framework of the topic of this study, at the same time, comparative research methods were used (Nickel et al., 2012; Papke, 2004).

Results

Achieving goals in the face of temptation is not easy, for this reason many goals remain unattainable. And this is despite the fact that in the civilized world it is

customary to save for retirement. According to statistics, only 1/6 of the population of developed countries is concerned about the issue of financial savings for old age. Debts on loans and credit cards in most countries on average exceed the minimum wage by 1.5-2 times. Experts from Canada came to the conclusion that the average resident of the country spends an average of \$ 1.50 for every dollar of income. Thus, the inability to achieve financial goals is a common problem. One way to help achieve a goal is to use self-discipline strategies. For example, people tend to spend less money if they set budgets or make spending plans before they face a situation of exceeding expenses over income (Buehler et al., 2010).

Self-discipline strategies can include everything a person does or thinks before or during a tempting situation, which helps him to resist temptations and act in accordance with his goals. A growing number of psychological studies of self-discipline strategies have revealed effective self-discipline strategies, mainly in the areas of academic goals and health. Participants are usually instructed on how to use certain strategies. For example, students who received instructions to remove temptations from sight reported that they made more progress in achieving their academic goals than students who were instructed to use willpower, or students from the control group (Krain et al., 2006; Conradt & Roper, 2005). Similarly, when participants learned about physically distancing themselves from temptations as a self-discipline strategy, they ate healthier food over the next week than participants who did not apply a self-discipline strategy (Vardar & Kızılcı, 2007; Kim & Jung, 2003).

In addition to receiving instructions on how to use self-discipline strategies, there is also evidence that people use self-discipline strategies spontaneously. For example, those with higher health goals preferred to stay away from tempting food (Davydenko & Peetz, 2020). While most self-discipline research focuses on healthcare and academic, only a few authors have studied self-discipline strategies in financial spending and savings. A lack of goals in the financial sphere can harm the well-being of an individual. Financial security determines the overall quality of life and subjective well-being, and financial stress is associated with physical health problems and even problems in relationships with loved ones. It is very important to identify ways to help people reduce costs and achieve their financial goals (Huybens & Smith, 1999; Dynan et al., 2006).

It is noteworthy that some self-control strategies identified in other areas, for example, avoiding temptations, should also be applied in the financial sphere. They are equally effective both for the temptations to spend money, and for the temptations that lead to rejection of studies and negligent attitude to health. In addition, financial decisions have been extensively studied in psychology, economics, and marketing, and many of these studies have included specific manipulations that increased savings or reduced costs and could function as financial self-discipline strategies. For example, it has been noted that people are more likely to contribute to their savings after visualizing their future, when tracking their weekly progress towards a savings goal, when considering the main reasons for their savings goal, or when setting a specific savings goal (Duckworth, 2019).

Discussion

Over long periods of time, people are likely to face various expense situations. People prefer to use different strategies for different situations of self-discipline. Thus, the most effective teaching of self-discipline strategies can be informing people about several self-discipline strategies, allowing them to choose the most appropriate strategies for each situation. There are individual differences in the types of self-discipline strategies that people use. For example, people in a better financial position use more strategies that promote the use of willpower, and fewer strategies that reduce temptations. Thus, personally developed financial strategies can best match a person's personality (Freitas et al., 2002).

The adoption of a strategy by the person using it can be an important factor in the effectiveness of the strategy, just as the correspondence between a person and an activity is considered as an important factor in well-being measures and the normative correspondence between personal goal orientation and goal-pursuing activities. For example, researchers determine the need to match a person and activity as an important component of an intervention to improve well-being. According to the positive activity model, greater matching of personality and activity - matching of activity and personality characteristics - is an important predictor of when performing positive actions makes people happier (Widana, et al., 2021; Omogho, 2021).

Similarly, in the field of goal striving, it has been shown that the best correspondence between a person's orientation to self-regulation and goal-achieving activities affects the pleasure of the task and the achievement of the goal. For example, prevention-oriented people coped better with temptations while achieving a goal, perhaps because avoiding obstacles goes well with a prevention-oriented personality (Hofmann & Kotabe, 2012). The temptation to exceed your own expenses is a common thing in everyday life, and failure to meet financial goals can have serious consequences. In a study of the application of the financial self-discipline strategy, experts from the Netherlands pointed out the following: people often spontaneously use financial self-discipline strategies to control their expenses in everyday life, and these strategies are effective: the frequency of using the strategy during the day was associated with lower expenses that day (Nugraha et al., 2020; Absatova et al., 2021).

Informing participants about empirically proven financial self-control strategies or informing them about strategies used by other people does not have a significant impact on their spending during the month. However, when participants developed personal financial self-control strategies that they already use, monthly expenses were reduced, daily expenses were slightly reduced, and more frequent use of these strategies during the day was associated with less spending that day. This conclusion is consistent with other work that established the benefits of personal choice when intervening. For example, independent choice in happiness intervention makes intervention more effective, and a review of interventions in many areas shows that reasonable interventions work in the context of existing programs (Karlsson, 2003).

Why was developing personal financial self-control strategies more effective than reading about financial self-control strategies? There are a number of possible influencing factors:

- Participants in the state of personal strategies could interact more actively with strategies.
- They used them more often.
- They could focus on completely different types of strategies that had never been tested in the empirical work to date.
- They could choose strategies that fit them better as individuals.
- They could consider a wider range of strategies that are better suited to specific expenses, instead of considering the same strategies in each situation ([Milyavskaya et al., 2020](#)).

Active participation can make people use strategies more effectively or more often than passive processing of the strategies provided. However, by encouraging the participants to interact more actively with the presented strategies, inviting the participants to write down examples of each strategy, the researchers achieved less effect than when the participants of the experiment implemented personal strategies. It was also found that many of the personally generated strategies were actually similar to the strategies provided, and that using proportionally more different (compared to similar) strategies that were on the provided list was not significantly more effective ([Ching & Chan, 2020](#); [Zong & Zhen, 2021](#)).

Self-created strategies may have been more specific and may have better corresponded to the personality and values of the participants (similar to the concept of personality-activity corresponding to the model of positive activity). Indeed, participants believed that personal strategies were better suited to their personality, and better personality was associated with choosing fewer costly spending options, suggesting that this may be one of the factors contributing to the advantage of personal strategies over other conditions. In general, a person's compliance may reflect a more autonomous motivation to use a certain strategy. Studies have shown that autonomous motivation to achieve goals increases their achievement. Similarly, autonomous motivation to use strategies to achieve a goal can also be related to the effectiveness of the strategy and, consequently, to the achievement of the goal.

Creating your own self-discipline strategies can increase the autonomous motivation to use these strategies for self-control. On the contrary, using the provided ready-made strategies can strengthen the controlled motivation to use them only as a means to achieve spending goals. Participants developing their own strategies could also consider strategies that better meet the requirements of the current spending situation than participants reading about the proposed strategies. While participants in all conditions were free to choose the most appropriate strategies for each spending situation (providing a choice was one of the reasons for giving participants a set of strategies, not just one strategy), participants in the personal strategies condition could feel more flexibility in adapting their strategies to the current spending situation. Indeed, the study found that participants who had developed their own strategies felt they were

more suited to the situation than those who had read about the proposed strategies.

Re-creating personal strategies can affect a person's financial self-esteem during the course of the study. Participants who list their own financial self-control strategies several times during the month may develop a sense of better self-control compared to participants who repeatedly see a list of possible strategies, not all of which they can use. A more positive financial self-assessment can reduce costs if it goes hand in hand with a more internal use of the strategy (for example, if the use of the strategy becomes a more autonomous activity over time). On the other hand, a more positive financial self-esteem can increase actual expenses if people become overconfident and stop being vigilant against temptations.

An important area of self-discipline research in the future is the further study of the correspondence of self-discipline strategies to the person using these strategies, or the situation in which they are used. Many financial strategies recognized as effective have been tested in individual spending situations. For example, thinking about your future self-increases people's saving behavior. Presumably, the effectiveness of the strategy in this situation extends to other situations, but, as the relationship between the compliance of the situation and spending decisions shows, strategies may not be equally effective in different situations. In the future, it will be possible to study predictors of compliance with the situation, as well as personality compliance in the field of self-control strategies. For example, character traits can make a difference: openness to new experiences can interfere with strategies that limit future opportunities (for example, avoiding tempting places), making these strategies less effective. It may be easier for people who are more future-oriented to use strategies related to this trait (for example, anticipating future regrets) [Sheehan & Van Ittersum \(2018\)](#). It is also possible to consider non-professional theories about how strategies should be used. Creating self-monitoring strategies several times over the course of a month may give the impression that different strategies should be used for different situations, whereas a reminder of the same expert strategies may mean that the same strategies should be used in any situation.

Conclusion

Financial self-discipline strategies are used spontaneously and frequently. However, when it comes to the effectiveness of these strategies to achieve financial goals, the personal strategies that people have already used outperformed the strategies suggested to them in the study. Therefore, in order to achieve financial goals, we can advise people who have already used strategies as part of their daily spending behavior to continue doing so, only to a greater extent and consciously. Over time, this cost reduction can significantly change a person's life.

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