

## The Psychology of Money




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## What *is* Money?



money (mŭn•é) n., pl.

- A medium that can be exchanged for goods and services and is used as a measure of their values on the market, including among its forms a commodity such as gold, an officially issued coin or note, or a deposit in a checking account or other readily liquifiable account.

- ▶ It is almost impossible to define money in terms of its physical form or properties since these are so diverse
- ▶ Money is anything that is widely used for making payments and accounting for debts and credits



## The Meaning of Money

- ▶ Money is a convenience to facilitate trade
- ▶ Money is a standard of value
- ▶ Money can't be distinguished by its source – but the source can determine what is considered to be the appropriate use
- ▶ We project our own definitions about money and society develops rules, regulations, and cultural norms that dictate its use



## The Meaning of Money, cont.

- ▶ The meaning of money cannot be reduced to that which it represents
- ▶ The meaning of money does not depend on some characteristic that is common to all money
- ▶ Instead, its meaning depends on what people in a particular context do with it

## Ayn Rand

“So you think that money is the root of all evil? Have you ever asked what is the root of money?”

“Money is only a tool. It will take you wherever you wish, but it will not replace you as the driver. It will give you the means for the satisfaction of your desires, but it will not provide you with desires.”

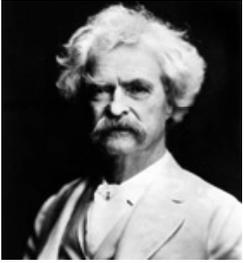


Atlas Shrugged

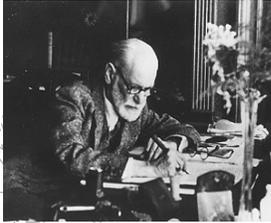
## Mark Twain

“The lack of money is the root of all evil.”

“To be satisfied with what one has; that is wealth.”



## Sigmund Freud



Emphasized the idea that a person's attitude toward money is written in his childhood

"Money is not an infantile wish."

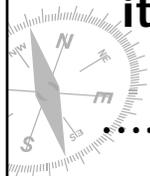
## Different Discipline Perspectives

### on Money

- ▶ **Clinical psychologists** believe feelings associated with money are related to various clinical states, anxieties, and neuroses
- ▶ **Developmental psychologists** study how money acquires important meaning as we progress through childhood
- ▶ **Personality researchers** examine how money is related to one's self-concept, identity and esteem
- ▶ **Industrial/Organizational psychologists** tend to study money as a valued outcome that employees are motivated to receive as a function of their employment
- ▶ *Could also talk about anthropology, sociology, economics, finance, criminology, ergonomics, and many other perspectives*

## Money as a Motivator

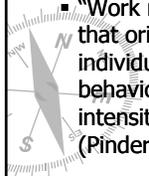
When someone says,  
"It's not the money,  
it's the principle"



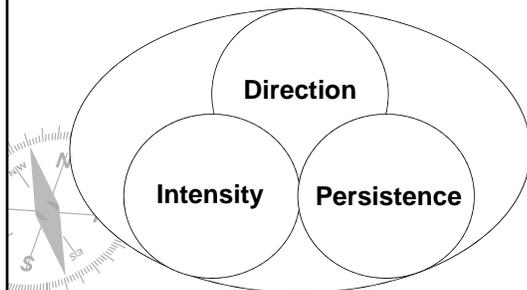
.....it's the money!

## What is *Motivation*?

- "Motivation represents the intra and inter individual variability in behavior not due solely to individual differences in ability or caused by situational constraints." (Kanfer, 1991)
- "Work motivation is a set of energetic forces that originate both within as well as beyond an individual's being, to initiate work-related behavior, and to determine its form, direction, intensity, and duration." (Pinder, 1998)

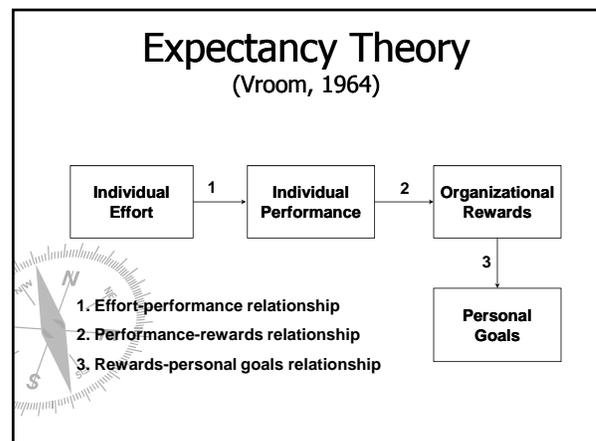
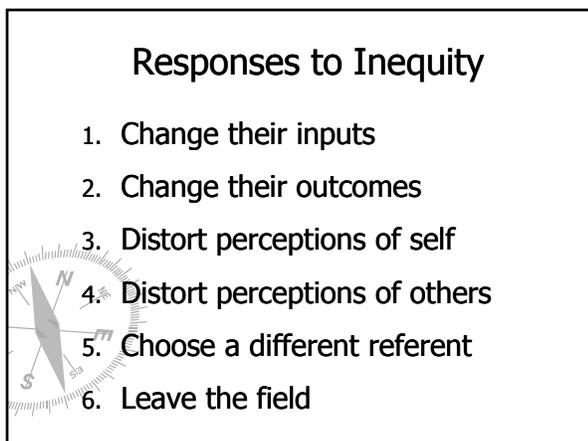
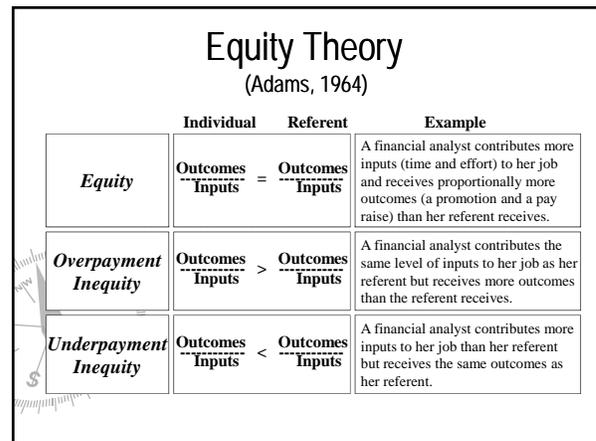
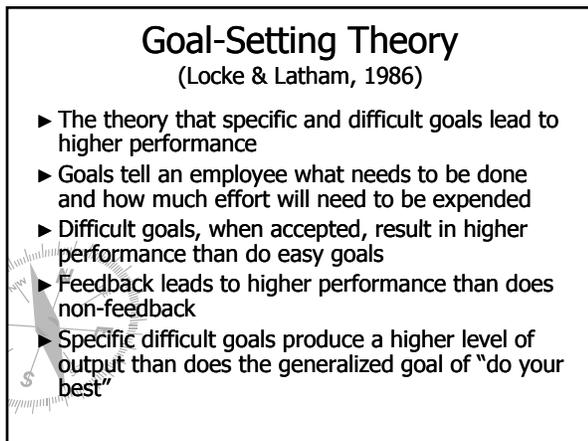
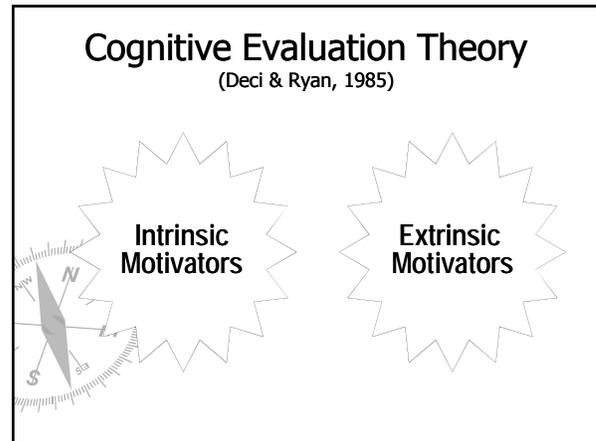
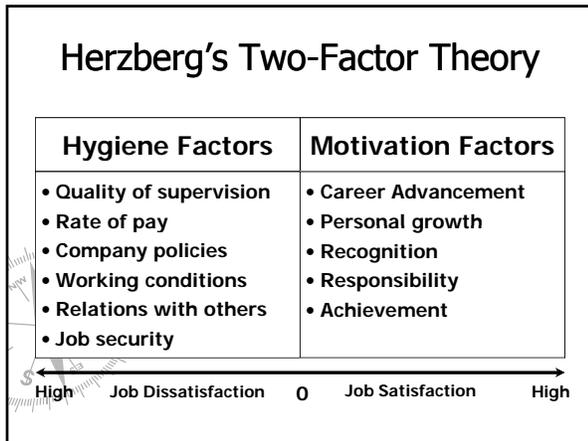


## What Is Motivation?



## Theories of Motivation

- ▶ ERG (Alderfer, 1972)
- ▶ Two-factor Theory (Herzberg, 1966)
- ▶ Theories X and Y (McGregor, 1957)
- ▶ Cognitive Evaluation Theory (Deci & Ryan, 1985)
- ▶ Goal Setting Theory (Locke & Latham, 1984)
- ▶ Equity Theory (Adams, 1965)
- ▶ Expectancy Theory (Vroom, 1964)
- ▶ And many more...



## Compensation (aka Money at Work)

- ▶ Cash is the ultimate medium of exchange
- ▶ Money is seen as the primary motivator
- ▶ When asked most people indicate they would continue with some form of work even if money was not an issue – the form of work, however, would change
- ▶ Many companies are dealing with this today – Ex. Dell
- ▶ We work to maintain a standard of living but beyond a certain threshold salary is not ranked by employees as one of the most important facets of work

## The Meaning of Money

- ▶ Research suggests there are six major meanings individuals attach to money:
  - Money is good - important, valuable and attractive
  - Money is evil - shameful and ultimately useless
  - Money is a Method of Keeping Score - achievement and a symbol of success
  - Money leads to respect and honor
  - Money is useful – budgeting and paying bills
  - Money is liberating - freedom, power, and autonomy

## Meaning of Money, cont.

- ▶ Payroll represents the single largest expense in most organizations
- ▶ This expense, however, is often viewed as simply part of doing business and not as a potentially useful tool
- ▶ Simply paying more is not the answer

## The Specific Case of Benefits

- ▶ Definition: All non-wage rate cash income and all non-cash benefits that impose some cost on the employer and give some utility to the employee
- ▶ Traditionally considered to be the 'fringe' of compensation but today account for a significant portion of payroll costs
- ▶ Examples – Medical Insurance, Retirement Plans, Paid Vacation, Education Reimbursement, Employee Discounts, and many more

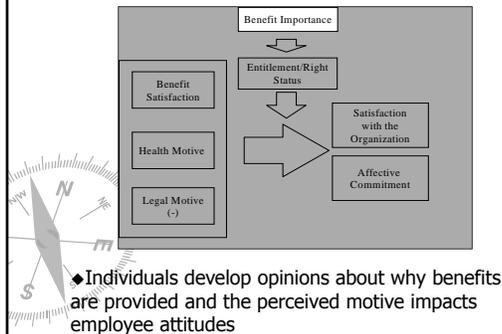
## Understanding Employee Perceptions

- ▶ All benefits are not viewed the same
- ▶ Employers and employees often view benefits differently
- ▶ Some benefits are expected to be provided while others are optional
- ▶ It is the perception of 'why' benefits are being provided that is the key

## Employee Perceptions, cont.

- ▶ When analyzed perceptions boil down to two potential reasons for an organization to provide benefits (Weathington & Tetrick, 2000)
  - To Promote Employee Health and Well-Being (Health Motive)
  - To Meet Legal Obligations (Legal Motive)

## Model of Benefit Perception



## Why We Care – Empirical Findings

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- ▶ Materialistic people prefer high pay
  - ▶ Individualists want individual pay plans
  - ▶ High risk-averse people want fixed pay
  - ▶ People who value money highly and take risks with it have higher scores on attributes such as sensation seeking, competitiveness and control
  - ▶ People who are desirous of money and think good of it often have high self-esteem and a high need for achievement
  - ▶ Men tend to be higher risk-takers than women
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## Empirical findings, cont

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- ▶ As we age, we tend to budget more and see money in a less negative light
  - ▶ Young people are less careful with money
  - ▶ Better educated people feel they have more control over money
  - ▶ Some benefits should be considered on their own and not as part of a complete package (at least when considering employee perceptions)
  - ▶ The best predictor of satisfaction with compensation is level of compensation
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## Conclusion

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- ▶ Both the individual and the organization have a perspective which must be considered
  - ▶ Money is **symbolic** and can only be understood through a historical and developmental perspective
  - ▶ Primarily, money represents an exchange and therefore an exchange relationship exists (i.e., effort in exchange for money)
  - ▶ If we understand how employees view money we can better structure compensation plans to motivate organizational desired behavior
  - ▶ Money (salary) is not the only aspect of compensation
  - ▶ Organizations need to use the largest corporate expense as an asset and motivational tool – not just as a cost of doing business
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