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Study of Consumer Behavior Related to Bankruptcy and Enterprise Products: from Brand Commitment and Willingness to Pay Perspectives in Behavioral Economics

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Abstract: *Brand commitment was positioned as a central concept. If consumers have high brand commitment, even if the relevant companies go bankrupt, a decline in product value is not observed. This study aims to explore new possibilities of consumer behavior based on the findings of behavioral economics. First we look at consumption, which is measured by experimental economics mechanisms. Then, we assess the changes in consumer behavior using willingness to pay (WTP). Moreover, we assemble a realistic model and conduct a covariance structure analysis (SPSS AMOS). Finally, this conclusion is explained by "Bounded rationality," advocated by Simon (1957). A completely rational man looks for the highest possible utility.*

Keywords: *Consumer Behavior, Behavioral Economics, WTP, Bankruptcy, Enterprise Products*

1. Introduction

Recently, company bankruptcies caused by product branding has consecutively occurred. Companies that file for bankruptcy (the de facto bankruptcy being determined at the time) lose their access to credit. Companies then must select either restructuring or liquidation. In the former case, even if bankrupt, companies may see obstacles to credit recovery.

Diversification is a management policy that can assist a company's restructuring. Diversification (moving into areas unrelated to existing operations) has been discussed as a means of economic efficiency. However, when the "bankruptcy" label is affixed to a company, its effect on a company's credit can impact even areas not related to its existing business.

In consumer behavior studies that solve complicated and sophisticated consumer problems, a need exists to understand consumers' psychological processes. At that time, brand commitment was positioned as a central concept. InInoue (2009), characteristics of consumer behavior highlight brand commitment as well as the degree of negative information regarding the brand.

This study posits the following hypothesis: if brand commitment is high, a consumer will purchase a company's products, even if the company is bankrupt .Although disagreeing with theories of behavioral economics, this study uses purchase-oriented brand commitment and bankruptcy enterprise product ideas to expand the discussion regarding consumer behavior using psychological aspects of the consumer.

First, we look at consumption, which is measured by experimental economics mechanisms. Then, we assess the changes in consumer behavior using willingness to pay (WTP). We assemble a realistic model and conduct a covariance structure analysis (SPSS AMOS). Finally, brand commitment and WTP, while against the theories of behavioral economics, contribute to expanding the discussion consumer behavior using psychological aspects of the consumer.

2. Recent Bankruptcies

According to the Teikoku Databank, in recent years, large corporate bankruptcies caused by product branding have consecutively occurred. For 2011, this is represented in Table 1.In 2014, companies with well-known brands went bankrupt because of excess debt. Sanki Co., Ltd., which went bankrupt in 2014, has a total debt amount of 12 billion yen.

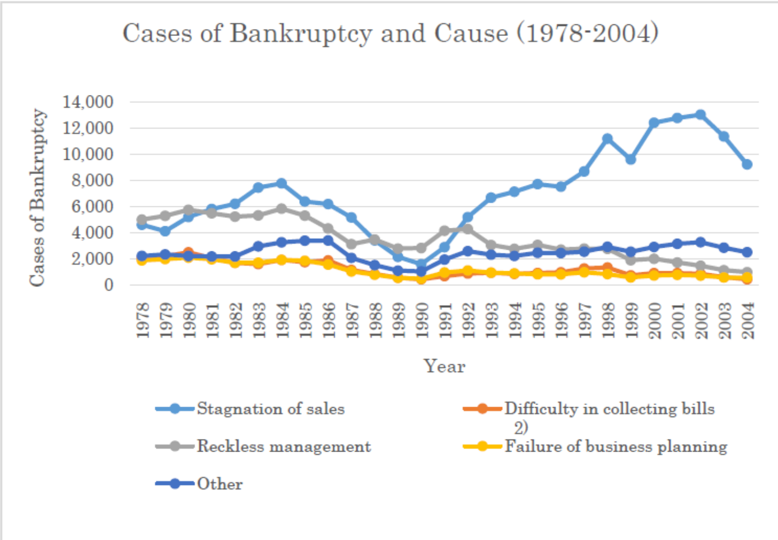
Table1.*Dates and Debt Amounts of Bankrupt Brand Product Companies*

Bankruptcy Years	Enterprise and Products	Liability Amount (Yen)
February 2011	Crown shoemaking Inc.(leather footwear manufacturing) "Lanvan" Luxury men's shoes	69 million
July 2014	Sanki Co., Ltd. (jewelry precious metals retail) "Jewelry Maki" luxury jewelry	12 billion
July 2014	Sansui Electric Co., Ltd. Co., Ltd. (electrical machinery equipment manufacturing) "SANSUI" luxury amplifier	3.5 million

Source: *Teikoku Databank of large bankruptcies. Table created by the author.*

Table 2 represents the main factors underlying bankruptcies in 1978–2004. The main bankruptcy factors were stagnation sales. Although bankruptcies after 1991 were on an upward trend, because of the Koizumi administration's economic policies, the total number of bankruptcies increased.

Table2. *Cases of Bankruptcy and Cause in Japan*



Limited to bankruptcies of all industries in Japan with liabilities of 10 million yen or more.

1) Data refers to the sum of bills discounted, notes endorsed for transfer and total liabilities in the credit side of the balance sheet excluding capital, and not to net liabilities.

2) Including bad loans.

Source: *Teikoku Data Bank, Ltd. Table created by the author*

While bankruptcy is commonplace in the United States, in Japan it is perceived as "death of the company." Once a Japanese company declares bankruptcy and obtains funding from the banking system, particularly if it occurs more than once, the road to restructuring is extremely difficult. Even if legal remedies are applied, bankrupt companies disappear by means of natural selection.

Consumers who had purchased a bankrupt company's products tend to cancel the purchase because of loss in brand value associated with the bankruptcy. The bankruptcy, in effect, lowers the utility (satisfaction) of the company products as their cost is greater than their utility. In contrast, if one really admires a company's products, the utility could outweigh the cost and the customer would not necessarily abandon the product. This action, called "brand commitment", is a part of the study of consumer behavior.

3. Previous Studies on Brand Commitment

Brand Commitment has been defined in product classification as an emotional or psychological attachment directed to a particular brand (Lastvicka and Gardner, 1978). In Traylor (1981), brands in product classifications reflect the psychological impact of choice on the consumer (Table 3).

Table3.*Brand Commitment and Consumer Behavior*

Repeated purchases of the product
Recommendation of the brand to others
Not affected by negative brand information
High WTP

Source: *Based upon Inoue (2009), the author has created table 3.*

Behavioral economist also hasinterpreted "commitment." In 2002, the behavioral economist Daniel Kahneman was awarded the Nobel Prize in Economics[1]. Prior to that, this field was based on "bounded rationality," as proposed by Herbert Simon, who won the Nobel Prize in Economics in 1978.Commitment is described as one of reasonable means to refrain a change in preference.

Conventional economics assumes that human beings are perfectly reasonable, because using cognition and memory, they can make calculations and process information. In contrast, bounded rationality suggests a limit to human computing power because limited options maximize utility. However, studies of limited human rationality assume their own value, even with incomplete results. Therefore, upon payment and purchase, that measures the value's magnitude, WTP, and willingness to accept (WTA).The difference between WTP and WTA will be discussed (Fig.1).

4. Analysis

WTP is defined as the maximum someone will pay for something. WTA is defined as the smallest presented value.

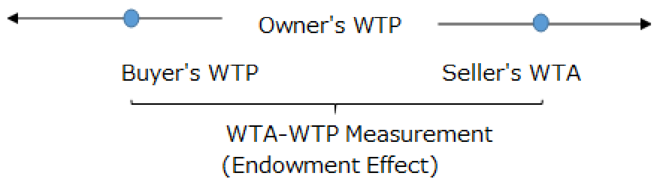


Fig1.*WTP Explanations: WTA-WTP Measurement*

We now analyze that how Brand commitment affects consumer behavior to bankruptcy brand products, which describes human irrationality in behavioral economics and measures the gap between the WTA and WTP.

To see changes in consumer behavior from the degree of WTA to the degree of WTP, we use the WTA–WTP measurement. To assemble realistic model from WTA-WTP Measurement and conduct covariance structure analysis (SPSS AMOS).From the results of covariance structure analysis and, is one of the characteristics of Inoue (2009), who "have a does not depend on the brand negative information of attitude," and who allows bankrupt companies' products to develop, the meaning, is carried out from the description of irrationality in behavioral economics.

4.1. WTP Measurement by Descriptive Answers

First, in accordance with previous studies, using the technique of experimental economics, were cruited subjects into three groups to confirm the WTA–WTP measurement. We asked the first group the sale price of the goods after ownership, the second group the sale and purchase prices of the goods, and the third group only the purchase price of the goods (Fig. 2).

Next, regarding purchase frequency, we compiled a five-stage evaluation, from1 = hardly buy to 5 = frequently buy. For a more detailed research, were quested number of purchases in the past five years, from 1 = one good purchased to 5 = five goods purchased.

The study comprised college students from Tokyo center and suburbs and 12 people from Aoyama Gakuin University (five men and seven women between 20 and 26 years of age). We asked these

[1]at that time, behavioral economics was a new segment of economics.

subjects for their names and addresses.(Note: to protect privacy, and to keep this information away from non-research personnel, other information, such as telephone numbers, was not requested, Because of the personal information protection law, experimental results cannot be divulged to a third party. This experiment's safety, because it was based on the approved methods of the Aoyama Gakuin University Department of Economics' ethics review committee, has been confirmed.

For each price indicate your decision by marking an X in the appropriate column.

	I Will Sell [Buy]	I Will Keep [Not Buy] the Shoes
If the price is $0	______	______
If the price is $0.50	______	______
⋮		
If the price is $9.50	______	______

Fig2. *WTA-WTP Measurement: Three Items of Bankruptcy Branded Products, Shoes, Jewelry, and Audio*
Source: *Kahneman, Knetsch, and Thaler (1990) "Experimental Tests of Endowment Effect and the Coase Theorem," p.1338, based on author revision and modification.*

4.2. Covariance Structure Analysis Model

Explained variable is Consumer's Behavior to Bankruptcy Brand Products. Explanatory variables are Brand Commitment, WTP, Frequency of Consume, and Quantity of Consume. Model estimation results by covariance structure analysis (SPSS AMOS Version 17) is shown in Figure 3. Note that the causal factors are standardized. The main indicator goodness-of-fit index for evaluating the covariance structure model (GFI), modified goodness of fit (AGFI), etc., has reached the level.

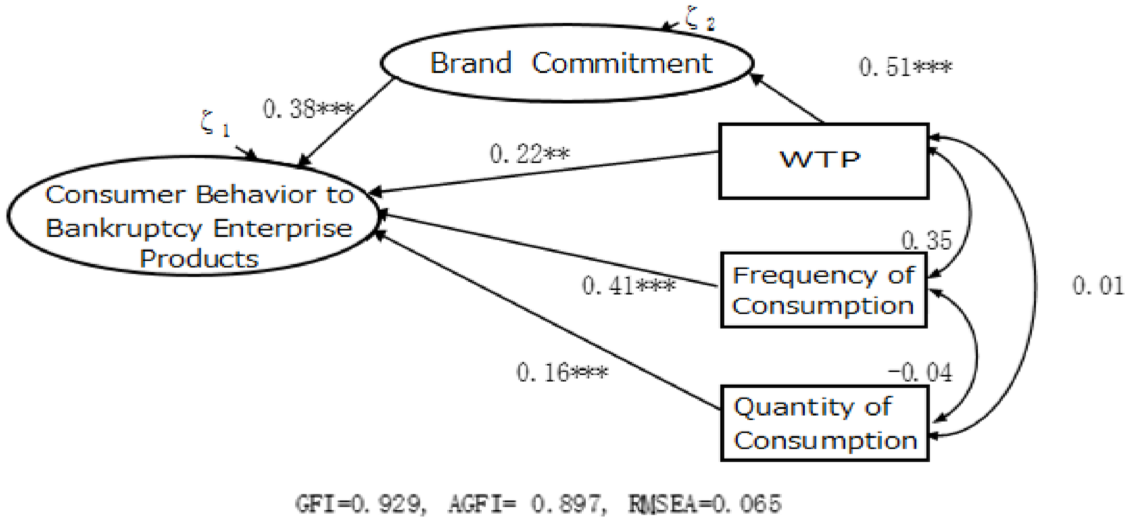


Fig3. *Analysis Model Estimation Results*

1) ***P<1%, **P<5%, *p<10%

2) ζ are error terms.

5. Results and Discussion

In figure 3, the analysis indicates that consumer brand commitment is high even if the company goes bankrupt. Purchase-oriented bankruptcy enterprise products are explained as follows:

① Confirmation Trap is based on selective decisions that I considered. Brand information is contrary to the hypothesis that high-quality products are neglected. Information that supports this hypothesis is in Wason, (1960).

② Self-justification is considered an escalation of commitment. The bankruptcy of brand companies leads to negative feedback asit conflicts with brand commitment and causes dissonance (the Dis-sonant). Removing the dissonance escalates the commitment (Staw, 1976).

Human beings tend to overestimate the person they choose, thus increasing the relative value of the choice. Therefore, by continuing to make the same choice, the final evaluation is maximized.

In social psychology (a peripheral area of behavioral economics), cognitive dissonance overestimates and human psychology underestimates what was not selected (Festinger, 1957). This fact is confirmed by experiments in Neuro-Economics, a new field within cranial nerve economics (Sharot et al., 2009).

This study hypothesizes that, as long as a consumer's brand commitment is high, decreased product value is not observed, even if accompany goes bankrupt. This conclusion is explained by "bounded rationality," advocated by Simon (1957). A completely rational man looks for the highest possible utility. However, human judgments have limits. Therefore, irrational behaviors can occur. Based on this, to try to understand the consumption and choice behavior from the consumer's perspective, this study may regarding consumer's behavior by empirical analyses.

6. Conclusion

In Fombrun and van Riel(2004), Fame & Fortune: How Successful Companies Build Winning Reputations, "Corporate Reputation,"(reputation and financial evaluation)is stated to be associated with each other. Reputation affects the performance of the company and its profitability. Profitability affects the share price. A corporate value then is formed, called "reputation capital," which spreads to its commodity companies. In a short time, stakeholders' changed emotions positively impact their outlook of the company. Improved profitability and higher employee motivation strengthens the company's growth potential. We would like to contribute to existing studies regarding the restructuring of bankrupt companies.

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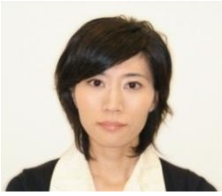

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