

Splurging with your Side Hustle: The Effects of Compensation Structure on Consumption Behavior

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Background & Motivation

Mental accounting research has revealed that individuals use various decision rules to *monitor, organize, and evaluate* their financial activities¹.

However, mental accounting research was primarily conducted in the 1980's and 1990's, when it was less common to hold more than one job.

Today, it is increasingly common for individuals to earn income through supplementary sources:

- ~ 32 million Americans use gig work for supplemental income^{2,3}
- 40% of Americans have a 'side hustle'⁴



RESEARCH QUESTION

Do individuals spend their primary and supplementary income differently?

Methods

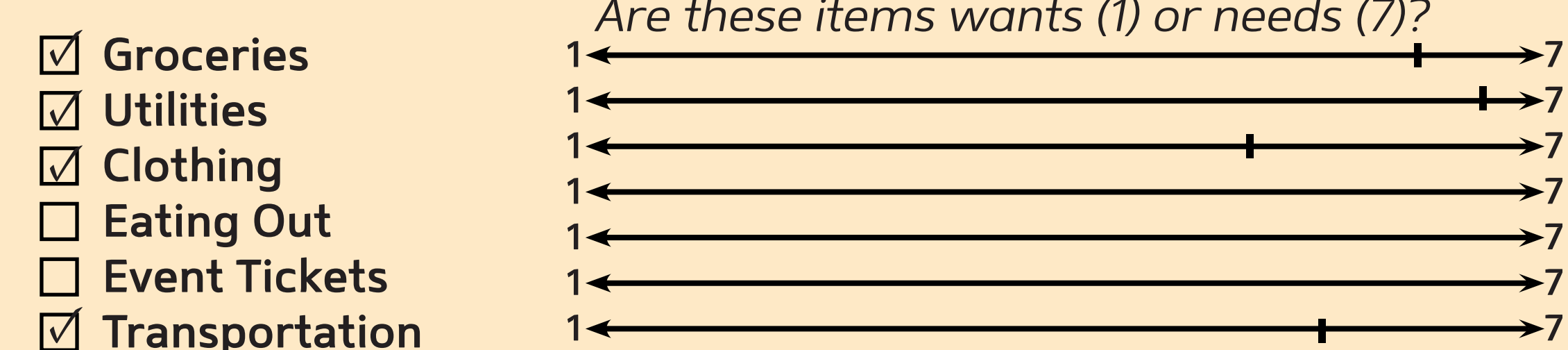
Study 1

Prolific: N = 745 (M_{age} = 36.91, SD_{age} = 13.03, 54.6% Female)

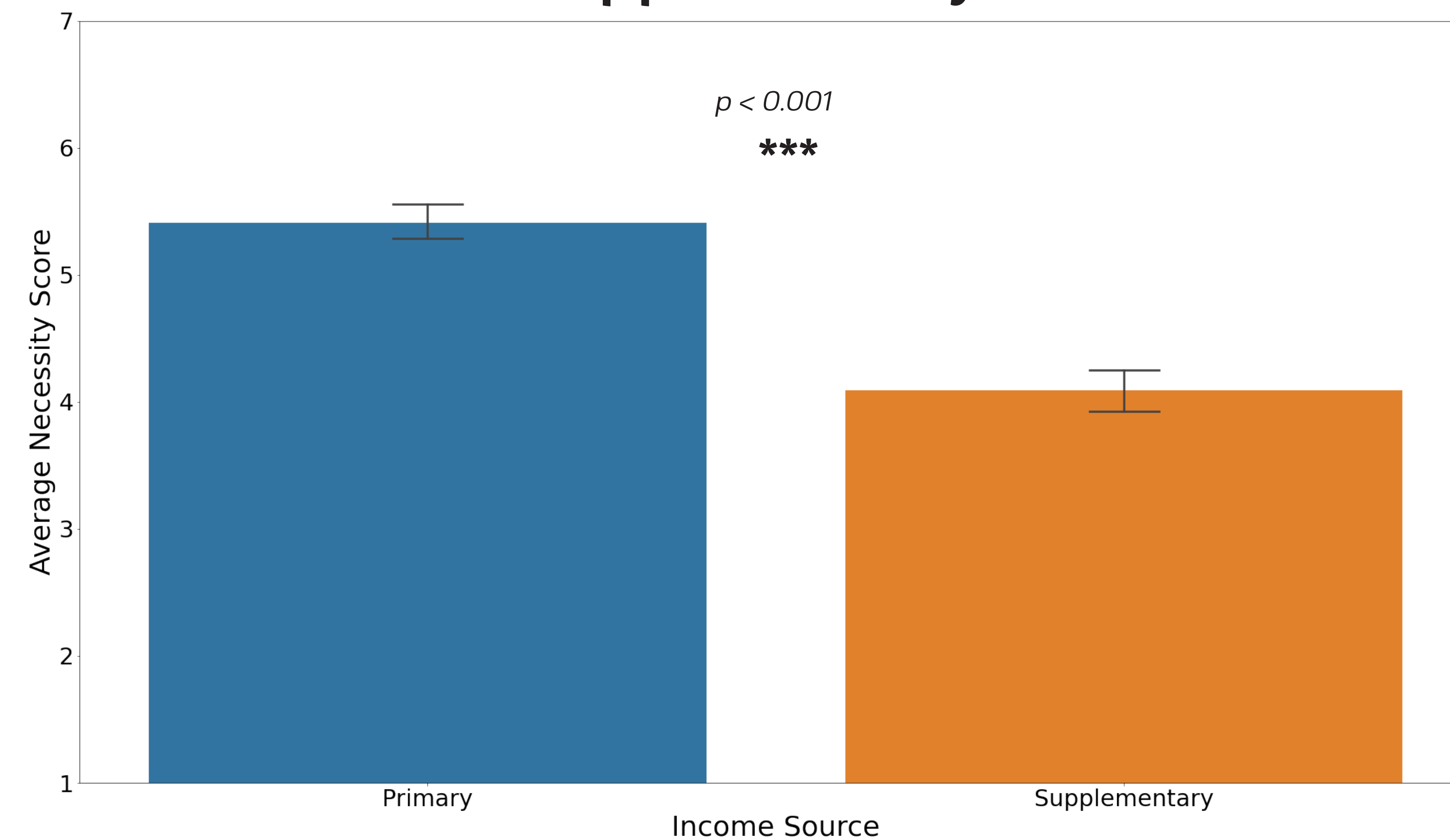
• Representative of the national US income distribution

Participants were asked:

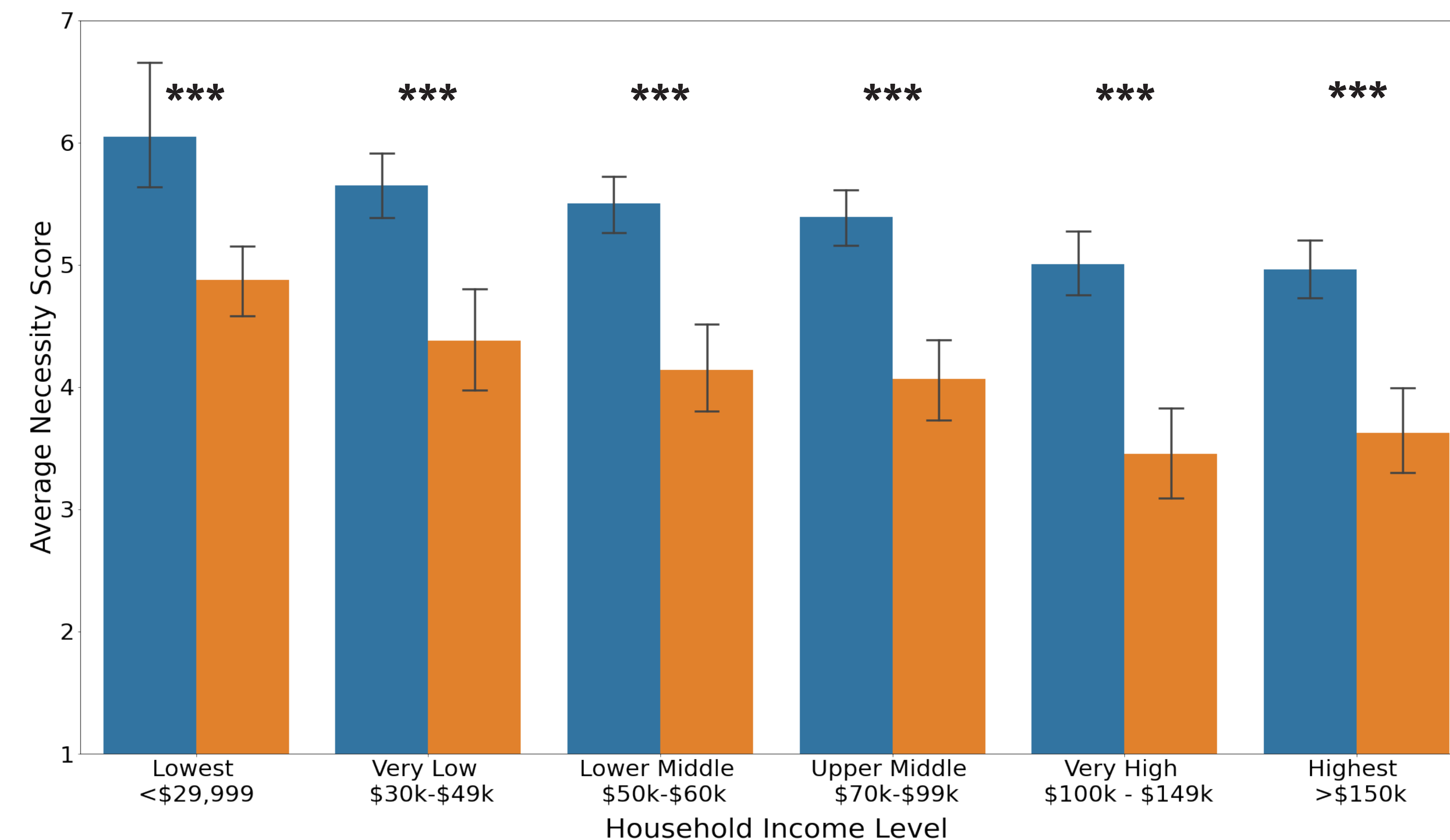
- What are the top ways you earn income?
- What percentage of your income is earned through this source?
- What do you pay for using this source of income? Check all that apply. [30 categories including Groceries, Utilities, Eating Out, etc.]
- When you make purchases in [this category] with [selected income source], are these items wants (1) or needs (7)?



Individuals report higher necessity scores for the purchases they make with their primary incomes and lower necessity scores for the purchases they make with their supplementary incomes.



This effect holds within and across income levels

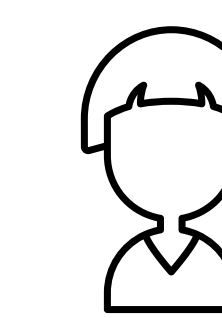


A two-way ANOVA revealed a statistically significant effect of income source ($p < .001$), income level ($p < .001$), but not their interaction. ($F = , p < .001$). Post-hoc multiple comparisons performed using Tukey's HSD test.

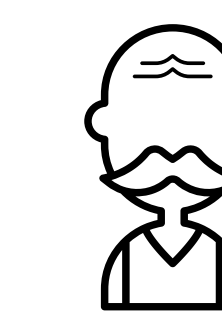
Mechanisms (Studies 2a & 2b)

Study 2a Prolific: N = 98, (M_{age} = 32.06, SD_{age} = 11.60, 62.24% Female)

- Same design as Study 1 + plots
- Asked: What's driving this difference?



"Splurging feels less guilty when it feels like it's coming from an extra place" – Female, 24, \$20k-30k

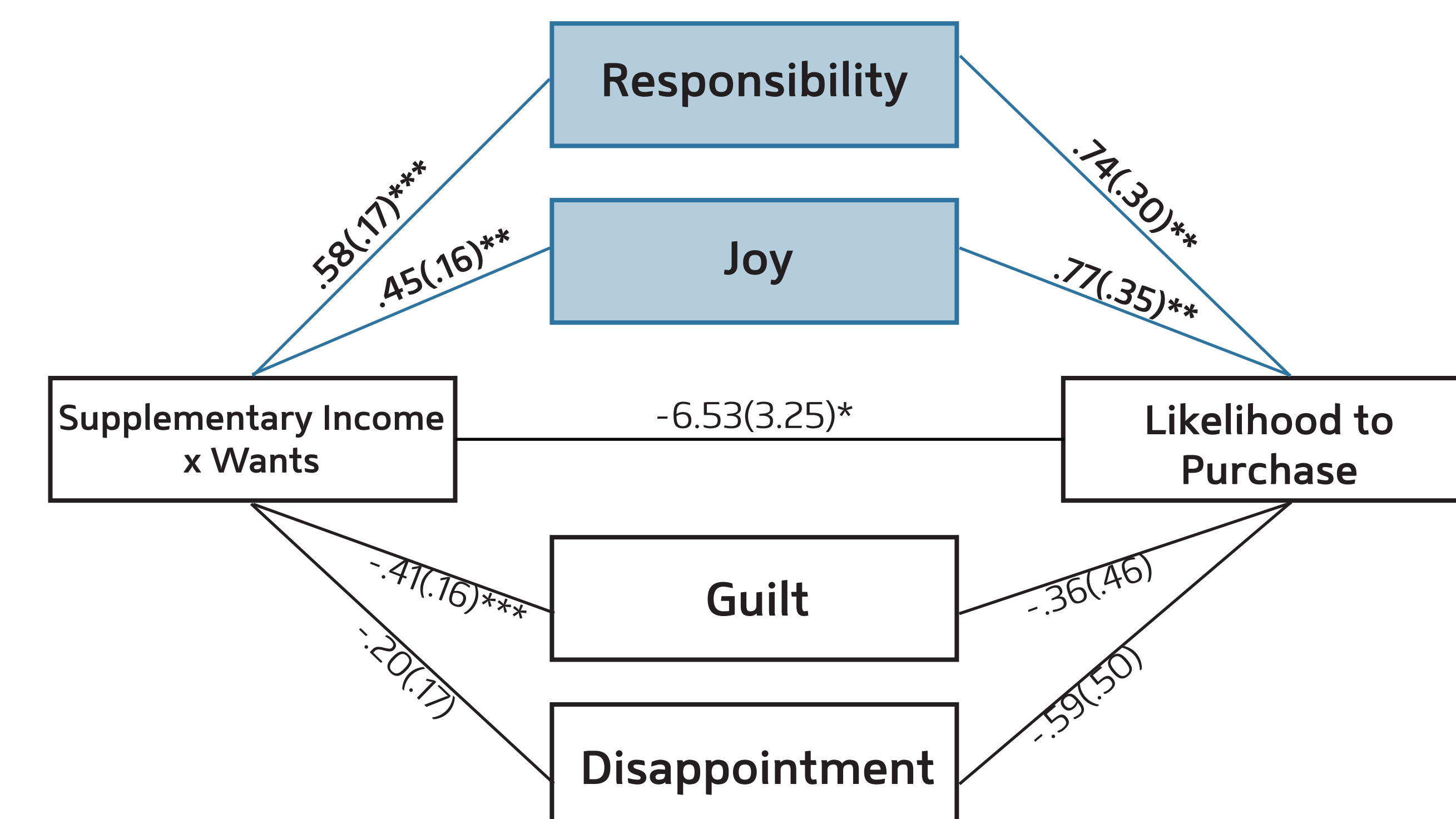


"It doesn't feel as responsible to use primary income on wants" – Male, 40, \$100k-149k

Identified four themes from participants in this inductive study

Study 2b Prolific: N = 99, (M_{age} = 31.88, SD_{age} = 11.72, 59.60% Female)

- Asked: How likely are you to make purchases in each of these [30] categories?
- Asked: How [responsible/joyful/guilty/disappointed] would you feel spending [selected income source] in this category?
- Loaded all four emotions as parallel mediators



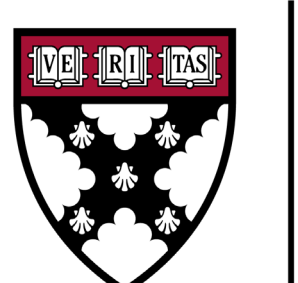
Feelings of joy and responsibility are associated with an increased likelihood of purchasing 'wants' with supplementary income (vs. primary income).

Discussion & Next Steps

- This research provides early evidence that the way we structure compensation may meaningfully influence individuals' consumption behavior and well-being
- Next, we are planning a moderation-of-process mechanism design
- We are continuing to explore whether these findings can be replicated using observational field data

References

- [1] Thaler, R. H. (1999). Mental accounting matters. *Journal of Behavioral Decision Making*, 12(3), 183–206.
- [2] Freelance work, side hustles, and the gig economy | McKinsey. (n.d.).
- [3] Independent work: Choice, necessity, and the gig economy | McKinsey. (n.d.).
- [4] Zapier report: 40% of Americans have a side hustle in 2022. (n.d.).



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