

# Wisdom-Driven Budgeting: Examining the Impact of Consumer Wisdom on Budgeting-Related Efforts

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## Abstract

Governmental and other institutions interested in promoting a saving culture among consumers to meet their long-term financial needs should prioritise encouraging budget-related activities. Promoting consumer wisdom could be an effective approach to promote budgeting-related efforts, as it has been linked to positive market-related behaviours such as ethical consumer behaviour, voluntary simplicity, and socially responsible purchasing. However, existing research has not explored the relationship between consumer wisdom and budgeting-related efforts. To address this gap, this study examines how the dimensions of consumer wisdom predict efforts towards responsible budgeting. Using a quantitative methodology, data was collected through a survey administered to 567 South African consumers.

The measurement quality was validated, and hypotheses were tested using partial least squares structural equation modelling. The findings indicate that consumers who prioritise responsibility and purpose, exhibit high reasoning skills, and maintain a broader perspective are more likely to engage in effective budgeting practices. This study highlights the importance of promoting consumer wisdom to encourage responsible budgeting and provides insights for policymakers and institutions aiming to foster budgeting and saving culture among consumers.

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# **1. Introduction**

## **1.1. Background**

The concept of wisdom has been universally recognised as an essential and integral part of human development across cultures and societies (Grossmann & Kung, 2017; Rowley, 2006). Consumer wisdom encompasses a range of cognitive and behavioural attributes that contribute to making wise decisions and exercising sound judgment in various life domains, including responsible consumption (Luchs & Mick, 2018). Understanding consumer wisdom is important in marketing due to its central role in shaping and influencing consumer decision-making processes (Ganassali & Matysiewicz, 2021; Grossmann & Kung, 2017;). Consumer wisdom significantly influences consumer behaviour, making it a crucial factor in marketplace decisions. Luchs and Mick (2018) have identified consumer wisdom as the foundation for enhancing individuals' character traits and personal well-being while impacting their decision-making choices (Grossmann & Kung, 2017). Research has also highlighted the influence of consumer wisdom on transformative efforts, which are behaviours associated with consumers' ability to positively transform their lives for the sake of their overall well-being and marketplace behaviour (Coulter et al., 2017).

In the context of budgeting, we argue that consumer wisdom could play a vital role in several ways. It can help consumers prioritise their financial goals and distinguish between short-term desires and long-term needs. Consumer wisdom can empower consumers to make thoughtful trade-offs and allocate their financial resources in alignment with their values and long-term aspirations. Furthermore, consumer wisdom can encourage consumers to seek information and engage in financial literacy to make well-informed budgeting decisions. It can also facilitate self-control and impulse management, enabling individuals to resist instant gratification and make choices that support their long-term financial well-being.

Therefore, conducting an empirical investigation into the role of consumer wisdom in budget-related efforts is crucial in shaping and promoting a budgeting and saving culture that fosters long-term goals among consumers. Such a study can provide valuable insights and levers that can be used to nurture responsible budgeting practices and encourage consumers to prioritise their financial well-being.

## **1.2. Problem Statement**

The available research on consumer wisdom has shed light on its critical impact on consumers' marketplace behaviour. For example, El-Sherbiny et al. (2022) highlighted the significant role of marketing ethics education in promoting consumer wisdom. This education enhances consumers' decision-making abilities and empowers them to make ethical choices, contributing to more informed and responsible consumer behaviour in the marketplace. A study by Schneider (2022) emphasised the

importance of wisdom in navigating social media paradoxes, illustrating its role in guiding consumer decision-making, influencing well-being outcomes, and providing insights for firms and policymakers to foster responsible social media use. Additionally, Luchs et al. (2021) found a positive association between consumer wisdom and personal well-being, where individuals with higher levels of consumer wisdom reported greater life satisfaction, positive affect, and subjective well-being. These wise consumers were also more likely to engage in pro-social behaviours, such as charitable giving, sustainable consumption, and ethical decision-making.

While these studies contribute significantly to the literature on consumer wisdom, they are limited in their focus, as they are primarily based on samples from Western countries such as France and Poland (Ganasali & Matysiewicz, 2021) as well as United States of America (Luchs, Mick & Haws, 2021). Moreover, the existing research has not yet addressed the role of consumer wisdom in promoting budget-related efforts. Understanding how consumer wisdom influences transformative behaviours, specifically in the context of budgeting, is crucial for promoting long-term financial well-being. Thus, there is a research gap in examining the relationship between consumer wisdom and budget-related efforts, particularly in non-Western contexts. By exploring this relationship, future research can provide valuable insights into how consumer wisdom influences individuals' budgeting behaviours and contributes to their financial success and overall well-being.

### **1.3. Research objectives**

To investigate the relationships between the dimensions of consumer wisdom, namely (i) responsibility, (ii) purpose, (iii) flexibility, (iv) perspective, and (v) reasoning, and consumers' budget-related efforts.

## **2. Literature Review**

### **2.1. Budgeting-related efforts**

Budgeting-related efforts can be described as the deliberate actions and strategies individuals undertake to manage their finances effectively. These efforts encompass activities such as creating and following a budget, tracking expenses, setting financial goals, making informed spending decisions, saving money, reducing debt, and managing financial resources in a way that aligns with one's financial priorities (Price et al., 2018). Budgeting-related efforts involve discipline, planning, and conscious decision-making to optimise financial resources, achieve financial objectives, and improve overall financial well-being. Budgeting is considered a component of self-focused transformative activities.

Previous studies have identified various factors associated with consumers' budget-related efforts. Lyu, Sussman, Wang Ly, and Zhang (2020) argued that low-income households are less likely to budget compared to higher-income individuals due to their level of disposable income. Lower-income groups often prioritise the actual source and size of their income (Lyu et al., 2020). Research has also shown that economic threats increase consumer anxiety, which affects their budgeting efforts, income, and

spending patterns (Lowe, Loveland, and Krishna, 2019). Moreover, Zhang et al. (2022) found that education and income play a significant role in shaping consumer attitudes towards perceiving budgeting as a beneficial tool for improving their lives.

While consumer wisdom has been associated with other types of transformative efforts, such as consumer-spending self-control, consumer self-confidence, voluntary simplicity, and socially responsible purchasing (Luchs et al., 2021), its specific relationship with budget-related efforts remains an area for further exploration. By examining the role of consumer wisdom in consumers' budgeting behaviors, researchers can gain insights into how wisdom influences individuals' financial decision-making, budgeting practices, and overall financial well-being.

## **2.2. Consumer wisdom**

Consumer wisdom is grounded in the broader concept of wisdom, which has captivated the attention of psychologists, philosophers, and social scientists for centuries. Wisdom is commonly defined as the capacity to draw upon one's knowledge and experiences to make sound judgments and decisions (Karami et al., 2020). It is associated with human qualities such as understanding, compassion, and perspective.

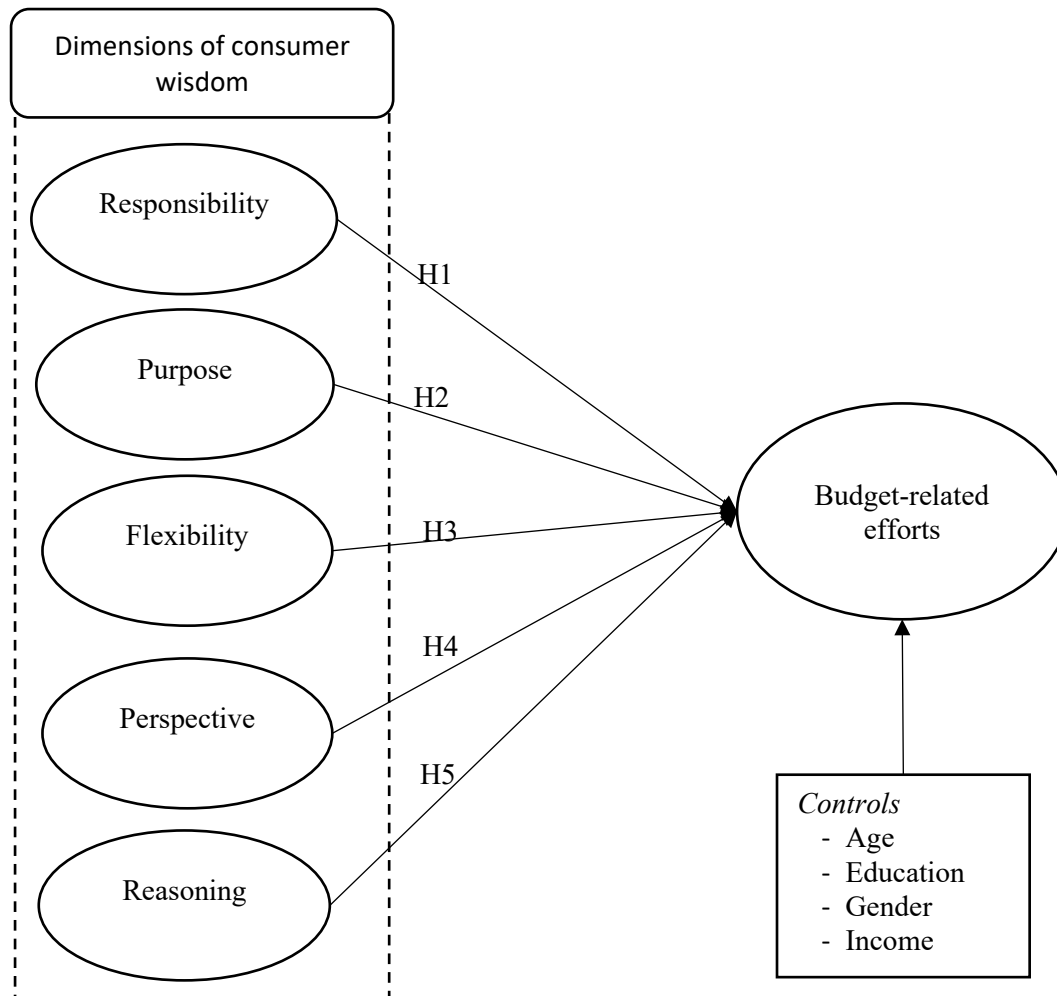
Within the realm of consumer behaviour, there is no universally agreed-upon definition of consumer wisdom, as scholars have taken diverse approaches to conceptualising this construct. Fowers (2003) defines practical wisdom as "the ability to discern the essence of what we encounter and respond skillfully and appropriately to those circumstances" (p. 415). Masmoudi (2017) views consumer wisdom as "the consumer's capacity to behave thoughtfully, adaptively, and autonomously while seeking well-being through the equilibrium of economic and emotional goals" (p. 148). Luchs & Mick (2018) provide a more comprehensive definition by describing it as "the pursuit of well-being for oneself and for others through mindful management of consumption-related choices and behaviours as realised through the integrated application of Intentionality, Contemplation, Emotional Mastery, Openness, and Transcendence" (p. 384).

In an empirical study, Luchs et al. (2021) empirically validated consumer wisdom as a multi-dimensional construct with six dimensions: responsibility, purpose, flexibility, perspective, reasoning, and sustainability. These dimensions encompass various aspects of consumer wisdom and provide a comprehensive framework for understanding its intricacies. Building upon this comprehensive examination, the present study adopts these dimensions to investigate consumers' budget-related efforts. For further details, please refer to Table 1, which summarises these dimensions and their key characteristics.

**Table 1: Luchs et al.'s (2021) dimensions of consumer wisdom**

Dimension	Brief overview	
Responsibility	The ability to manage spending in relation to personal resources in order to achieve a realistically envisioned lifestyle. This involves making informed decisions about how money is allocated	
Purpose	Entails prioritising discretionary spending to promote personal growth, health, and relationships. It entails making intentional choices about how money is spent, focusing on areas that bring value, fulfilment, and contribute to overall well-being.	
Flexibility	The ability to be open to alternative forms of consumption. This may include options such as renting, sharing, or buying used goods instead of always pursuing new purchases. Being flexible in consumption choices allows individuals to make more sustainable and economically efficient decisions.	
Perspective	This involves relying on past experiences and taking into consideration potential future consequences when making current consumption decisions. It entails reflecting on previous financial choices and using that knowledge to inform present decisions.	
Reasoning	involves actively seeking and applying sufficient information to guide consumption decisions. It emphasizes the importance of critical thinking and evaluating different options before making purchasing choices. Engaging in thoughtful analysis and utilizing information helps individuals make more informed and wise consumption decisions	
Sustainability	It involves favoring pro-environmental and pro-social consumption options. Individuals with consumer wisdom prioritize choices that have a positive impact on the environment and society, such as opting for eco-friendly products, supporting socially responsible brands, and practicing mindful consumption habits that minimize waste	

The purpose of this study is to examine how the five dimensions of consumer wisdom, as identified by Luchs et al. (2021), influence consumers' budget-related efforts. The dimensions include responsibility, purpose, flexibility, perspective, and reasoning. However, the dimension of sustainability is excluded from the analysis as it is primarily related to green consumption and is not directly associated with consumers' budget-related efforts. By focusing on these dimensions, the study aims to gain insights into how consumer wisdom, as manifested through these five dimensions, affects how consumers approach and engage in budgeting. It will examine whether consumers who exhibit higher levels of these dimensions are more likely to engage in effective budgeting practices. The research model (Figure 1) controls for the impact of demographic variables, mainly respondents' age, education, gender and household income, on the endogenous variable, i.e., budget-related efforts.



**Figure 1: Proposed research model**  
**Source: Author's own construction**

### 3. Research Methodology

#### 3.1. Instrument design

A quantitative methodology was employed for this study, using a survey strategy as the primary research method. The survey instrument was designed using multiple items adapted from prior literature to measure the study's constructs. Specifically, the items used to measure the dimensions of consumer wisdom (responsibility, purpose, flexibility, perspective, and reasoning) were adapted from Luchs et al. (2021). The items used to measure budget-related efforts were adapted from Price et al. (2018). All items were measured on a 5-point Likert scale, with "Strongly disagree" and "Strongly agree" as the endpoints.

The initial draft of the questionnaire was piloted with a conveniently selected sample of 40 respondents. The purpose of the pilot was to assess respondents' understanding of the item wording and questionnaire instructions, as well as their level of comfort with the questionnaire's structure and appeal. Overall, respondents provided positive feedback, indicating their comfort with the questionnaire's content and understanding of the item wording. Some minor typos were identified and corrected. On average, it took approximately 16 minutes for respondents to complete the questionnaire. Cronbach's alpha was calculated to assess the reliability of the construct measures. The results showed that Cronbach's alpha for budget-related efforts was 0.614, while the rest of the measures exceeded the threshold of 0.7. After addressing the identified typos, the questionnaire was finalised for the survey administration.

### **3.2. Survey administration**

The target population for this study was defined as South African consumers aged 18 years and above, but younger than 65 years old. An online survey was conducted, with respondents self-administering the questionnaire. Google Forms was used to create and programme the online questionnaire. The questionnaire link was generated and embedded within an invitation letter, which was distributed via email and various social media platforms to consumers who fulfilled the study's target population criteria. The landing page of the questionnaire contained a consent letter that respondents were required to read and agree to before participating in the study. To recruit the respondents, fieldworkers (BCom Honours students) used convenience sampling, to obtain respondents who were readily accessible. Upon completing the survey, respondents were thanked for participating and encouraged to share the invitation letter with the questionnaire link among their circles to increase participation.

The survey was active for 4 weeks and resulted in 579 responses. After conducting data exploration, 12 responses were excluded due to incomplete data or a lack of variance in the responses, where respondents provided the same response for all items of the construct (i.e., strongly disagree, neutral, or strongly agree). As a result, the final sample size for data analysis consisted of 567 respondents.

### **3.3. Hypotheses**

The following hypotheses were formulated for the study:

- H<sub>1</sub>: Higher levels of consumer responsibility will be positively associated with effective budget-related efforts.
- H<sub>2</sub>: Higher levels of consumer purpose will be positively associated with effective budget-related efforts.
- H<sub>3</sub>: Higher levels of consumer flexibility will be positively associated with effective budget-related efforts.
- H<sub>4</sub>: Higher levels of consumer perspective will be positively associated with effective budget-related efforts.

- H<sub>5</sub>: Higher levels of consumer reasoning will be positively associated with effective budget-related efforts.

### **3.4. Ethics**

The study underwent an ethical review process and received approval from the institutional ethical review board with the ethical code 2021SCiiS010.

## **4. Results and Findings**

### **4.1. Measurement model validation**

To test the hypotheses proposed for the study, a partial least squares structural equation modelling technique was implemented. The software, SmartPLS version 4.0.9.5, was used to run the analysis (Ringle et al., 2022). The measurement model was estimated using the confirmatory factor analysis (CFA) technique to validate measurement scales (Hair et al., 2021), and subsequently, the research model was estimated to test the proposed hypotheses.

The first step in the CFA analysis for the measurement model was the assessment of the reliability of the items measuring the constructs using Cronbach's alpha and the composite reliability (Hair et al., 2021). The results presented in Table 2 indicate that both the Cronbach's alpha and composite reliability estimated for the study's constructs are all above the 0.7 threshold, thus confirming the reliability of the measurement items employed in the study.

In the second step of the CFA analysis, the convergent validity of the model was assessed using the standardised factor loading and average variance extracted (Hair et al., 2021). The results (Table 2) show that all the factor loadings except for FLX3 (0.665), PUR4 (0.676), and RES1 (0.661) are above the recommended threshold of 0.708 (Hair et al., 2021). However, all the average variances extracted (AVEs) for the constructs exceed the 0.5 threshold (Hair et al., 2020), providing evidence of the convergent validity of the CFA model. Thus, the three items with loadings lower than the 0.708 threshold were retained in the model.



**Table 2: Reliability and convergent validity**

Construct and items	Loadings	Cronbach's alpha	Composite reliability	AVE
Budget-related efforts		0.724	0.828	0.618
BRE2:	0.851			
BRE3:	0.774			
BRE4:	0.729			
Flexibility		0.997	0.877	0.646
FLX1	0.887			
FLX2	0.912			
FLX3	0.665			
FLX4	0.721			
Perspective		0.760	0.845	0.577
PER1	0.785			
PER2	0.740			
PER3	0.803			
PER4	0.705			
Purpose		0.837	0.878	0.645
PUR1	0.782			
PUR2	0.855			
PUR3	0.884			
PUR4	0.676			
Reasoning		0.777	0.843	0.642
REA1	0.799			
REA2	0.749			
REA3	0.851			
Responsibility		0.814	0.872	0.632
RES1	0.661			
RES2	0.827			
RES3	0.831			
RES4	0.845			

The last step in the CFA analysis is the assessment of discriminant validity. The HTMT criteria (Henseler et al., 2015) were used to ascertain the discriminant validity of the model. According to this criteria, the HTMT ratio of correlations should be less than 0.85 or 0.90. The results in Table 3 show

that the highest HTMT ratio, observed between responsibility and purpose (0.857), is less than the 0.9 threshold, providing support that validates the discriminant validity of the measurement model.

**Table 3: HTMT Criteria for Discriminant Validity**

		1	2	3	4	5	6
1	Budgeting-related efforts						
2	Flexibility	0.190					
3	Perspective	0.540	0.213				
4	Purpose	0.579	0.462	0.595			
5	Reasoning	0.504	0.145	0.821	0.598		
6	Responsibility	0.654	0.375	0.553	0.857	0.543	

## 4.2. Hypotheses testing

Before assessing the research model to test the hypotheses, the potential issue of multicollinearity between the independent factors was addressed by examining the variance inflation factor (VIF) estimates for each of the constructs (Hair et al., 2021). The VIF values ranged from 1 to 2.395, which is below the commonly accepted threshold of 3 (Hair et al., 2020). These results indicate that multicollinearity is unlikely to pose a significant threat in the analysis.

Next, the predictive ability of the structural model was assessed using multiple measures, including  $R^2$ ,  $Q^2$ , and effect size ( $f^2$ ). The model demonstrated a significant predictive relevance, with an estimated  $R^2$  of 34.1%, indicating that 34.1% of the variance in consumers' budget-related efforts can be explained by the significant dimensions of consumer wisdom. Moreover, the  $Q^2$  value of 0.289, which is greater than 0, provides empirical support for the predictive relevance of the endogenous construct, i.e., budget-related effort. The effect sizes for the constructs are presented in Table 4. According to Cohen (1988), effect sizes ranging from 0.02 to 0.15 are classified as small, effect sizes from 0.15 to 0.35 are considered medium, and effect sizes of 0.35 and above are categorised as large. The results indicate that the effect sizes observed for the predictors of consumers' budget-related efforts are in the range of small. These findings collectively provide strong evidence supporting the predictive relevance of the model.

The results of the hypotheses testing provide support for H1, indicating that consumers with higher levels of responsibility exhibit higher levels of budget-related efforts ( $\beta=0.327$ ,  $t=6.231$ ,  $p<0.001$ ). This suggests that consumers who demonstrate a greater sense of responsibility are more likely to engage in effective budgeting practices. Similarly, the results demonstrate a positive association between purpose and budget-related efforts ( $\beta=0.111$ ,  $t=2.141$ ,  $p<0.05$ ), indicating that consumers with a stronger sense of purpose are more likely to engage in effective budgeting practices.

However, the results do not support H<sub>3</sub> as the relationship between flexibility and budget-related efforts is not statistically significant ( $\beta=0.027$ ,  $t=0.680$ ,  $p>0.05$ ). This suggests that consumers who exhibit a higher level of flexibility are not likely to engage in budget-related efforts.

On the other hand, the results support H<sub>4</sub>, indicating that perspective has a significant positive impact on budget-related efforts ( $\beta=0.154$ ,  $t=3.138$ ,  $p<0.01$ ). This suggests that consumers who exhibit higher levels of perspective are more likely to engage in higher levels of budget-related efforts.

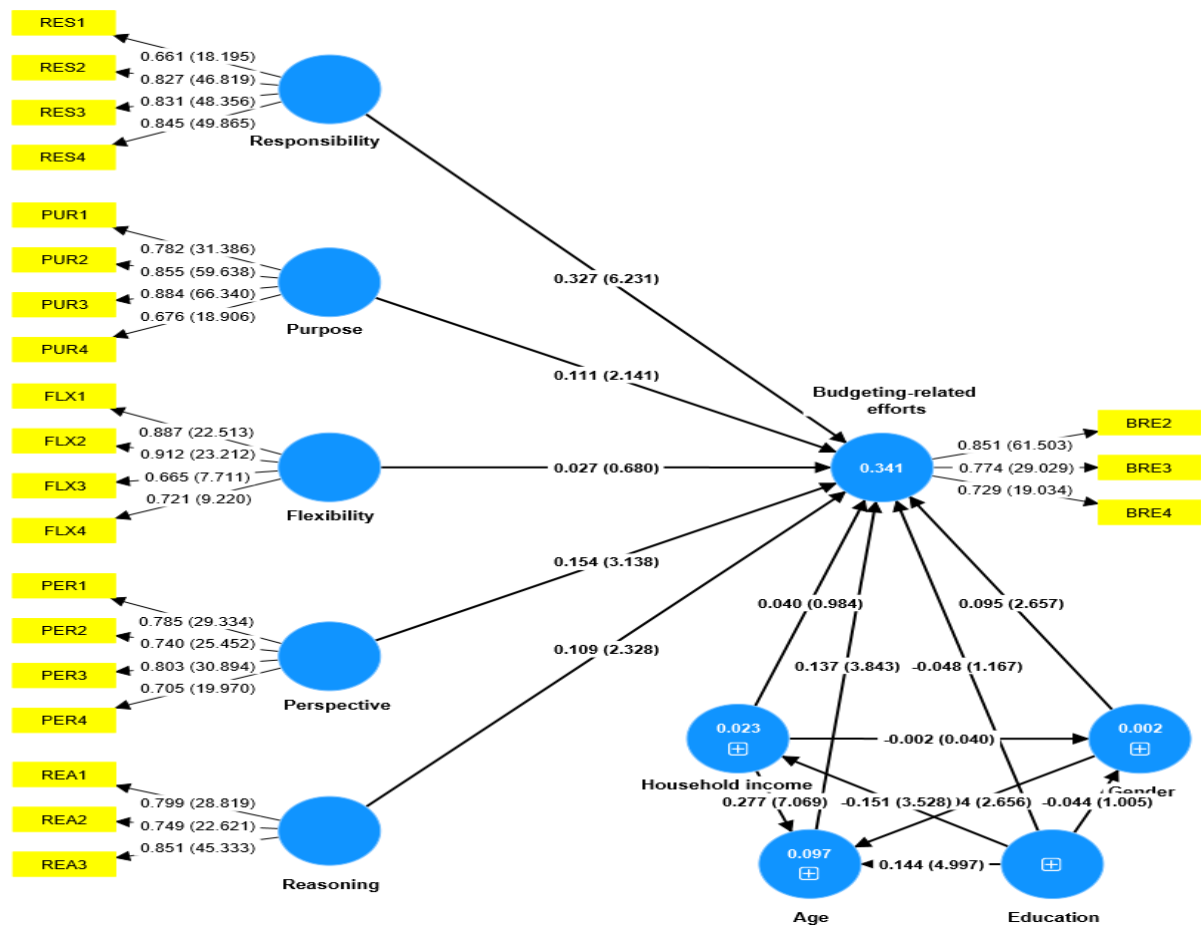
Furthermore, the results support H<sub>5</sub>, showing that reasoning has a significant positive impact on budget-related efforts ( $\beta=0.109$ ,  $t=2.328$ ,  $p<0.05$ ). This suggests that consumers with higher levels of reasoning are more likely to engage in budget-related efforts.

In summary, the findings underscore the significance of responsibility, purpose, perspective, and reasoning in shaping consumers' budgeting-related efforts. Notably, responsibility emerges as the factor with the strongest impact ( $\beta=0.327$ ), indicating that consumers who prioritise and demonstrate a strong sense of responsibility are more likely to engage in effective budgeting practices. Following responsibility, perspective, purpose, and reasoning also exhibit positive impacts on consumers' budgeting-related efforts, although their effects are relatively smaller compared to responsibility.

**Table 4: Results of Hypotheses Testing**

	Coeff	Bias Corrected confidence interval		T statistics	f <sup>2</sup>
		2.50%	97.50%		
Responsibility → Budgeting-related efforts	0.327***	0.220	0.429	6.231	0.076
Purpose → Budgeting-related efforts	0.111*	0.013	0.213	2.141	0.021
Flexibility → Budgeting-related efforts	0.027 <sup>ns</sup>	-0.057	0.101	0.680	0.001
Perspective → Budgeting-related efforts	0.154**	0.056	0.249	3.138	0.025
Reasoning → Budgeting-related efforts	0.109*	0.015	0.199	2.328	0.010
<i>Controls</i>					
Age → Budgeting-related efforts	0.137***	0.069	0.211	3.843	
Education → Budgeting-related efforts	-0.048 <sup>ns</sup>	-0.124	0.035	1.167	
Gender → Budgeting-related efforts	0.095 <sup>ns</sup>	0.027	0.165	2.657	
Household income → Budgeting-related efforts	0.040 <sup>ns</sup>	-0.040	0.118	0.984	

\*\*\*  $p<0.001$ ; \*\*  $p<0.01$ ; \*  $p<0.05$ ; <sup>ns</sup> $p>0.05$  (not significant)



**Figure 2.** The structural model with estimated item loadings, path coefficients, t-values and R<sup>2</sup>  
Source: Author's own construction with the aid of SmartPLS.

## 5. Managerial Implications

The findings of this study have important managerial implications for businesses and organisations seeking to enhance consumers' budgeting-related efforts. These institutions must focus on improving consumer wisdom dimensions of responsibility, purpose, perspective and reasoning.

In terms of responsibility, businesses and organisations interested in enhancing consumers' budget-related efforts can emphasise the importance of responsible spending by providing educational resources, tools, and support to help consumers manage their finances effectively. Encouraging consumers to align their spending with their personal resources and long-term financial goals can lead to more informed and responsible budgeting decisions. By offering budgeting apps, financial planning services, or personalised recommendations, businesses can assist consumers in practising budgeting and responsible spending habits.

The significant relationship between purpose and budgeting-related efforts underscores the need for businesses and organisations to help consumers to prioritise their spending by promoting the concept of purposeful budgeting. By highlighting the connection between discretionary spending and personal growth, health, and relationships, businesses and organisations interested in promoting budgeting-related efforts can encourage consumers to allocate their resources towards activities and experiences that align with their values and aspirations. Moreover, businesses and organisations interested in promoting budget-related efforts can offer products or services that contribute to personal development, well-being, and meaningful connections. These can further support consumers in their purpose-driven budgeting efforts.

Furthermore, businesses and organisations interested in promoting consumers' budget-related efforts can help consumers make more informed budgeting decisions by encouraging a broader perspective. By providing information on the long-term consequences of spending choices and sharing past experiences of successful budgeting, businesses can empower consumers to think critically and make better-informed decisions. Providing financial education programmes, tools for tracking and analysing expenses, and personalised recommendations can assist consumers in adopting a more future-oriented mindset when it comes to budgeting.

Given the positive impact of reasoning on consumers' budgeting-related efforts, businesses and organizations interested in promoting and nurturing budgeting-related efforts among consumers can invest in initiatives that improve financial education and literacy. By providing resources, workshops, or online courses that help consumers develop and enhance their reasoning skills, organisations can empower individuals to make better-informed financial decisions and take proactive steps towards budgeting and managing their finances effectively. Moreover, managers can focus on developing user-friendly budgeting tools and apps. These tools/apps should be intuitive, easy to navigate, and provide visual representations of financial data to assist consumers in understanding and analysing their budgets. Including features that encourage logical reasoning and decision-making, such as goal-setting, data analysis, and personalised recommendations, leverage and enhance consumers' level of reasoning towards budgeting-related efforts.

## **6. Conclusions, Limitations and Future Research**

The present study contributes to the understanding of how consumer wisdom drives their budgeting-related efforts by highlighting the importance of responsibility, purpose, flexibility, and perspective in shaping consumers' budgeting-related efforts. The findings indicate that consumers who prioritise responsibility and purpose, exhibit high reasoning, and maintain a broader perspective are more likely

to engage in effective budgeting practices. These dimensions provide important insights for businesses and organisations seeking to support consumers in their budgeting efforts.

Although the study makes important contributions to the literature, it has some shortcomings which provide avenue for future studies. The study was a cross-sectional design. This limits its ability to draw causal inferences and detect changes in consumer wisdom that could occur over time and how it manifests their impact on budgeting-related efforts. Thus, it is recommended that future studies consider longitudinal designs that can enable researchers to provide insights into the dynamic nature of consumer budgeting behaviors over time. Examining how consumer wisdom dimensions and budgeting practices evolve and interact with changing life circumstances can offer valuable insights for developing targeted interventions and strategies. Moreover, the study was only conducted in South Africa, which limits the cross-cultural generalizability of its findings. Future studies could consider investigating consumer budgeting-related efforts across different cultural contexts. This can shed light on the influence of cultural factors on budgeting behaviours. Moreover, exploring how cultural values, norms, and societal influences shape consumers' attitudes and practices related to budgeting can provide a more comprehensive understanding of consumer behaviour in diverse contexts.

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