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Citation for published version:
Harrison, T, Marchant, C & Ho, M 2014, 'Conceptualising Financial Socialization'. in Child and Teen Consumption 2014. Child and Teen Consumption 2014, Edinburgh, United Kingdom, 9-11 April.

Published In:
Child and Teen Consumption 2014

Conceptualizing Financial Socialization

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Purpose

The purpose of the paper is (1) to develop a discussion regarding the processes via which children develop and become financially literate: the process of financial socialization; (2) to propose a conceptual framework for understanding financial socialization among children and young adults.

Design/methodology/approach

The paper is based on a literature review and integration of theories of consumer socialization, economic socialization and social learning theory.

Findings

A key contribution of the paper is the development of a conceptual framework for the analysis of financial socialization that identifies financial socialization as a function of financial socialization agents, financial socialization processes and financial socialization outcomes.

Practical implications

Understanding the relative influence of financial socialization agents and processes on financial literacy can lead to a better understanding of how to develop effective financial education programmes and how best to deliver them.

Social implications

Financial literacy is key to good financial decision-making. Understanding the key agents and processes of financial socialization can help to understand how to improve financial literacy and subsequent decision-making.

Originality/value

The paper proposes a conceptual framework for understanding financial socialization. Few studies have connected socialization theories with financial literacy in relation to children. The findings are of value to academics and practitioners who want to improve the effectiveness of financial literacy among children.

Conceptualizing Financial Socialization

Purpose

There has been growing interest in recent years in improving financial literacy. Financial literacy is essential to good financial decision-making and financial well-being, the impact of which is felt individually and at a macro level. An understanding of how individuals develop and acquire the skills of financial literacy and capability must start with an appreciation of how such skills are developed among children. Knowing how children and young adults develop financial values, attitudes and behaviours is important for transition into adulthood (Kim et al, 2011). Poor financial habits acquired at a young age may carry into adulthood and lead to financial problems later in life (Varcoe et al, 2001). The purpose of the paper is (1) to develop a discussion regarding the processes via which children develop and become financially literate: the process of financial socialization; (2) to propose a conceptual framework for understanding financial socialization among children and young adults.

Method

The paper is based on a literature review and preliminary observation of the financial literacy context in which opportunities for financial socialization for children exist. We explore and discuss the influence of a number of agents of financial socialization and potential interrelationships between them. We propose a conceptual model that integrates consumer socialization (Roedder John, 1999), economic socialization (Lunt & Furnham, 1996) and social learning theory (Bandura, 1986).

Financial socialization derives from economic and consumer socialization which has been defined as "the process by which young people acquire the skills, knowledge, attitudes relevant to their effective functioning as consumers in the marketplace" (Ward, 1974:2). Kim et al (2011) argue that financial socialization is broader than learning how to function effectively in the marketplace. It is the process by which individuals acquire and develop knowledge, beliefs, behaviours and norms that influence their subsequent financial practices (Danes, 1994). The paper discusses a conceptual framework to illustrate the financial socialization agents and processes that contribute towards the development of financial literacy and subsequent financial behaviours.

Results

We propose a conceptual framework of financial socialization among children and young adults. The model draws on insights from Shim et al's (2009) student financial well-being model - based on an adaptation of the theory of reasoned action- that shows how early financial socialization is related to financial learning which in turn is related to financial attitudes and subsequent behaviour. Our framework proposes that financial literacy and subsequent financial behaviour is influenced by a number of financial socialization agents via socialization processes. Bowen (2002) notes that socialization occurs even before children can speak, yet formal learning is needed for abstract concepts such as interest that are difficult to comprehend through everyday interaction.

Financial Socialization Agents

Ward (1974) was the first to synthesise the three key social agents affecting a child's socialization: family, peer group and mass media. More recently, researchers have added 'culture' and institutions (such as school) to the list (Beutler & Dickson, 2008; Gudmunson & Danes, 2011) leading to the most commonly researched agents of financial socialization today being parents, peers, media and culture (Bakir et al, 2006; Mandrik et al, 2005). The family is argued to be the primary socialising agent with the most influence on values, attitudes and practices, often throughout life (Keranne & Hogg, 2010). The importance of intra-family financial socialization is acknowledged as it operates through the provision of financial information networks, grants and exchanges of financial resources and financial role models (Rettig & Mortensen, 1986). Each family member can act as a socialising agent on the other within the culture, values and norms of the family, and the family can also be important in mediating the effect of other socializing agents (Moschis, 1985). Despite the importance of the family, Gudmunson and Danes (2011) criticise the lack of real intra-family focus in financial socialization. We observe that many studies described as 'family' have tended to focus only on parent-child dyadic interactions rather than how the members of a family interact as a network. Perhaps not surprisingly, the parent is considered the most influential socializing agent, especially among young children, and this has been the focus of much research (Roedder John 1999).

Parents can directly and indirectly affect financial socialization. Allen (2008) notes that parental financial socialization usually comprises modelling consumer behaviour, making rules about children's consumer behaviour and engaging in direct discussions about purchasing decisions, money, credit, encouraging savings and the giving of an allowance. Research has shown the impact of parents as financial socialization agents.

Kim et al (2011) find that parental warmth, parental financial monitoring and parent-child interactions about money explain cognitive and behavioural aspects of adolescents' financial behaviours. Hibbert et al (2004) showed that parents who are more prudent money managers better socialise their children to avoid unnecessary debt, whereas Allen (2008) found that young adults saw money as problematic when they came from a home where parents argued about money. Danes (1994) found that parental influence is affected by the parent's own financial beliefs and importantly at what age they feel their child is ready to know about or participate in certain financial matters. In a study of college students, Jorgensen and Savla (2010) showed that while young adults perceived their parents to have an influence on their financial attitudes and behaviour, they did not perceive they had an influence on financial knowledge.

It has been well established that parental guidance gradually declines as children develop into adolescents and young adults. Also, parental assistance in money management matters changes as the child grows older (Danes, 1994). Adolescents tend to move away from direct family influence and socialise into, or conform to, peer groups (Roedder John, 1999). Peer groups and institutions are more important in influencing development of the older child than dyadic relationships with parents alone (Harris, 1995). There is a lack of research into peer influence in the context of financial socialization.

Berger and Luckman (1966) consider the influence of institutions, like schools, on children to be secondary socialization suggesting that children understand the different realities of the norms of home versus the new realities of institutions. Since the Labour government of 1997-2000 there has been a focus on financial education in the school curriculum. However, Atkinson (2008) notes that there is little evidence that financial education programmes have improved financial capability, but acknowledges that this may be due to the lack of rigorous research rather than the effectiveness of programmes per se. Appleyard and Rowlingson (2013) explored the impact of financial education on children in a small number of primary and secondary schools and concluded that there was limited impact: children had little recall of the discussions in the programme. Brimble and Blue (2013) argue that financial education is not a value-free curriculum and should take account of the social context in which it is delivered. Financial education involves discussion of saving and borrowing that have strong cultural overtones. Research could be conducted to understand to what extent financial education can or should be about developing skills or changing attitudes and values, the extent to which such teaching might conflict with family socialization processes and the extent to which education needs to be relevant to the child's stage of development so as to enable children to have the ability to put skills into action.

Financial Socialization Processes

Financial socialization agents can influence children through a number of socialization processes. Financial learning can be observational or formal, passive or participatory (incidental learning). Evidence suggests that young people learn attitudes and behaviours through observation and imitation of role models that they come into frequent contact with (Bandura, 1986). Formal learning typically is delivered via the education system, school or work, although parents can also impact children's socialization via purposive overt teaching, modelling and practice.

Financial Socialization Outcomes

Two key outcomes of financial socialization are financial literacy and financial behaviour. The terms financial literacy, financial knowledge, financial education and financial capability are often used interchangeably in the literature. Danes and Haberman (2007: 49) define financial literacy as "the ability to interpret, communicate, compute, develop independent judgments, and take actions resulting from those processes in order to thrive in our complex world". Huston (2010) defines financial literacy as comprising a knowledge dimension (referring to the stock of knowledge acquired through education and/or experience) and an application dimension (referring to the ability and confidence to effectively apply and use the knowledge).

Investigations to establish a causal relationship between financial literacy and a change in financial behaviour have been explored but have not been fully established (West, 2012). Critics have argued that there has been too much emphasis on cognitive financial literacy and not enough attention to social and cultural aspects (Brimble & Blue, 2013). Despite the recognised importance of developing financial literacy at a young age, most studies into financial literacy have been conducted among adults. With the exception of a few studies (e.g. Royal Bank of Scotland, 2011), Appleyard and Rowlingson (2013) note that there is limited literature on children and money. There is a need to explore the goals of financial literacy for children and how these change as children develop through adolescence and into young adulthood, as well as the impact of a variety of agents and processes in the development of financial literacy.

Danes (1994) notes that financial socialization involves five major concept areas (that also relate to financial behaviours): earning, spending, saving, borrowing and sharing. She argues that socialization concepts have focused mostly on concepts related to purchases and marketplace interactions rather than on social learning about non-consumption activities such as saving.

Discussion

Given the relative lack of research in this area, this paper seeks to contribute to our theoretical understanding of financial socialization. We propose a conceptual framework to initiate discussion on how children develop and become financially literate. Much is known about consumer socialization and the general socialization of children. There is also a developing body of literature on financial literacy. Yet, few studies have connected socialization theories with financial literacy in relation to children. Appleyard and Rowlingson (2013:510) note that there is very little research in the field "particularly research involving the direct participation of children". Research is needed to understand the interaction between socialization agents, socialization processes and socialization outcomes. Moreover, research is needed to understand the relative influence of different socialization agents on children of different ages, specifically as they develop from young children through adolescence and into young adulthood. Life-course investigations are rare in the personal finance literature (Gudmunson & Danes, 2011): childhood is a key stage of the life-course.

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