

# Assessment of the Use of Theories within the Journal of Financial Counseling and Planning and the Contribution of the Family Financial Socialization Conceptual Model

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*The purpose of this article is to assess and interpret the use of theory within the Journal of Financial Counseling and Planning from its inception in 1990 through 2012. During that time, only 39% of research articles explicitly identified a theoretical base to guide the study's research question. Almost half (48%) of the articles incorporating a theoretical base used some form of the economic life cycle hypothesis. Most of the frameworks used were cognitively and/or individually oriented. This focus represents an attribution error since most financial socialization occurs within the family context. The Family Financial Socialization (FFS) conceptual model with testable hypotheses was proposed as one conceptual model to use in beginning to address this attribution error. FFS contributes both contextual and socialization dimensions to the explanation of financial behavior and financial outcomes such as financial well-being. The FFS model proposes that the creation of desirable financial behavior and motivation for future financial behavior change emanate from family interaction and relationships and from purposive financial socialization both in childhood and across the life cycle.*

*Key words: financial behavior, financial literacy, financial socialization, financial theory, financial well-being, socialization, theory development*

## Introduction

An academic discipline is defined by the nature of its research and the theoretical grounding on which that research is organized. A challenge for a discipline in its infancy is conceptual precision and consistency. It often borrows and adopts conceptual frameworks and theories from other disciplines until researchers develop conceptual frameworks specifically focused on the essence of the discipline. The purpose of this article is twofold. First, it assesses and interprets the use of theory within the Journal of Financial Counseling and Planning from its inception in 1990 to 2012. Second, to fill a theoretical gap discovered in that assessment, hypotheses are proposed for the Family Financial Socialization (FFS) conceptual model which was recently introduced out of an extensive critical review of the literature (Gudmunson & Danes, 2011). FFS is a conceptual model that specifically focuses on the essence of the discipline and projects the discipline beyond an individual and cognitive theoretical orientation. Proposing testable hypotheses is the next stage of development of the conceptual model.

The *Journal of Financial Counseling and Planning* (JFCP) is one of the main publishing outlets of the personal

finance discipline (Schuchardt, Bagwell, Bailey, DeVaney, Grable, Leech, Lown, Sharpe, & Xiao, 2007). The first issue was published in 1990 and its twenty-third volume was published in 2012. The journal's aim is to disseminate scholarly research related to the financial decision making of individuals and families, financial education and counseling techniques, and the education of professional financial educators, counselors, and planners. The publication serves the needs of an international research community. In 2010, Ji, Hanna, Lawrence, and Miller performed a content analysis highlighting research and publication trends across the two decades of the journal's existence. However, even though theory is critical to the foundation of any discipline, to date, no one has assessed the use of theory in the research published in the *Journal of Financial Counseling and Planning*. The objectives of this article are to perform this task and to discuss a conceptual framework that is being developed specifically for the personal and family finance discipline.

## Definitional Groundwork

Determining the theoretical grounding for a research study is of critical importance because the practical applicability of a theory is dependent on the content of its theoretical

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propositions. Since the *Journal of Financial Counseling and Planning* is an interdisciplinary journal, it has drawn on a number of theories across several disciplines. Because terminology varies across disciplines, one of the first tasks in assessing theory use of in the journal was to clarify terminology that would be used in the assessment process. Many people use the terms “conceptual framework” and “theory” interchangeably despite important differences between the two. To create clarity of meaning in assessing the journal’s use of theory over time, we used Sztompka’s (1974) criteria to distinguish between a conceptual framework and theory. Sztompka (1974) is the sole source used in the assessment because his conceptualizations of conceptual framework, theory, the stages of development from the former to the latter, and the requirements for an adequate theory are clear, relevant, and applicable in the context of this article.

As we examine the trends and gaps in theories used in JFCP, it is important to evaluate the theories and conceptual frameworks in terms of conceptual precision, completeness, and level of abstraction. Based on Sztompka’s criteria, those aspects are critical in guiding research. Later in the article, when the Family Financial Socialization conceptual model is introduced, Sztompka’s stages of theory development and seven requirements for an adequate theory serve to identify the current stage of development of the FFS model and steps to be taken to develop it into a full-fledged theory. We adopted Sztompka’s framework for that aim because few other social theorists have distinguished the stages of theory development and the criteria for an adequate theory with such clarity.

According to Sztompka (1974), a conceptual framework organizes experience by selecting a certain region of experience, defining the boundaries of that region, and determining what is taken into consideration and what is dismissed as irrelevant. It then defines the dimensions of variability for each concept within the boundaries of that framework; it further identifies the polar opposites within that range of variability in terms of how each concept in the framework is measured. A conceptual framework is not simply a set of analytic categories or an enumeration of concepts, but a unified image of reality. It is a set of assumptions defining both the general, constant characteristics and the possible range of the particular, variable characteristics of a given domain of reality. In this way, a conceptual framework generates a language for theory construction and provides a definite space within which more specific theoretical propositions can be formulated. Conceptual frameworks, then, are precursors to theory development.

Sztompka identifies seven requirements for a theory: (1) specification of the properties and scope of the problem or outcome of the theory, (2) general assumptions designating relationships between and among constructs, (3) testable propositions, (4) justified propositions that are positive when tested, (5) pragmatic completeness of propositions in that they must not create new problems of an explanatory nature in place of solved ones, (6) semantic consistency in that there are a definitive number of concepts coming from the same conceptual realm with consistent conceptual language being used, and (7) unification of theory, either downward unification in that theories can be linked by a common problem or outcome or upward unification where theories can be linked by common explanatory constructs. A conceptual model progressively develops into a mature theory as it meets these seven criteria.

As Sztompka (1974) indicates, semantic consistency exhibited through conceptual clarity and precision is critical to theory development. A research study’s purpose and, more particularly, its research question(s) should be closely aligned with the assumptions and hypotheses of the theory used to ground the study. Operational definitions of the variables within the study methodology should be closely aligned with the conceptual definitions of the theory’s constructs.

To begin the journal assessment and at the same time to exemplify the importance of conceptual precision, it is critical to define and clarify the core concepts of the personal finance discipline: financial behavior and financial well-being. To do this, it is important to differentiate between financial behaviors and financial outcomes. The lack of precision in the use of these conceptual labels has contributed to practitioners’ failure to understand the value of theory (Lyons & Neelakantan, 2008).

Xiao (2008) defined financial behavior as human behavior that is related to money management. He also defined financial outcomes as the result of both a person’s own behavior as well as distal and proximal contextual influences.

Examples of proximal influences are values, beliefs, attitudes, and experiences that are central to family financial socialization. They influence individuals’ motivations and expectations, which, in turn, affect their financial decision making and financial behavior patterns; these financial decision and behavior patterns that emanate out of the family context influence financial outcomes in both the short and long term. Distal influences extend beyond those emanating

from the core family financial socialization context. They emanate from such sources as cultural underpinnings, societal norms, peer relationships, or economic conditions and characteristics. Distal influences additionally affect motivations and expectations in making financial decisions and in implementing those decisions (behavior patterns).

As a concrete example of the conceptual distinction between financial behavior and outcomes, saving an amount of money regularly is a behavior, but increasing the amount saved over time is an outcome. Ajzen and Fishbein (1980) stipulate that behaviors and outcomes are not synonymous because financial behaviors only partly contribute to financial outcomes. The socialization context in which those financial behaviors occur is vital to a greater understanding of the financial outcomes that result. To add further conceptual precision, Gudmunson and Danes (2011) indicate that there are two interrelated types of financial behaviors that affect financial well-being which are (a) patterns of action (e.g. saving, spending, earning) that are grounded in socialization, especially within families, and (b) financial turning points and decision making around those turning points. The decision making around those turning points is greatly influenced by the social context in which the decisions are processed, made, and implemented.

### Theoretical Undergirding of Journal Research

Personal finance literature historically has been outcome-based. When studies did include theories, those theories were usually not change-based until recently (Gudmunson & Danes, 2001; Xiao, 2008). In order to assess theory use in the *Journal of Financial Counseling and Planning*, we conducted a thorough review of all articles in this journal from its inception in 1990 through 2012 (vol. 23). For each article, we identified

its research question and assessed its theory integration, including the use of analytic models, hypotheses, theories, and conceptual frameworks. Specifically, we not only identified the presence of theoretical grounding, but also evaluated whether theory was appropriately, consistently, and fruitfully integrated into the study. When evaluating theory integration, we strove for a balance between general criteria of theory integration and the actual needs of the specific study. Specifically, we assessed the application of constructs, assumptions, and propositions of the theory in each study, while also taking into consideration the content of the research question under examination.

We then calculated frequencies of application for each theory, examined major trends in theory application, and developed conceptual classifications for frequently used theories. For each major classification, we did individual summaries of the content, major constructs, and major assumptions or hypotheses of each theory used in research articles. We also made note of any pattern that emerged during the assessment, such as theories that have frequently been used in combination.

With this methodology, we found that from the inception of the journal in 1990 through 2012, only 39% of the research articles were explicitly guided by either a conceptual framework or a theory with specific assumptions and/or hypotheses. The percentage of journal articles with theoretical grounding within a single volume ranged from a low of 14% of articles in the first volume to a high of 67% in the 18th volume. Table 1 summarizes the general classifications of the theoretical groundings utilized in those articles. This summary table addresses the first requirement for theory development identified by Sztompka (1974), which is specification of

**Table 1. Theory Classifications Undergirding Journal of Financial Counseling and Planning Research**

Theoretical Category	# of Articles	%	Specification of Scope of the Problem or Outcome <sup>a</sup>
Economic	56	48	Searches and accounts for broad patterns in behavior
Human Behavior	18	15	Explains human growth and development of behavior
Family	14	12	Explains functioning and sociocultural processes of families
Behavior Change	10	9	Explains behavior change
Sociological	12	10	Interprets social phenomena and behavior
Learning	4	3	Explains development of cognitive functioning
Life Course	3	3	Analyzes people's lives within structural, social and cultural contexts

<sup>a</sup>First requirement for a theory identified by Sztompka (1974)

the properties and scope of the problem or outcome of the conceptual framework or theory. The table includes the theoretical classifications used in the journal, the number of articles from 1990 to 2012 in each classification, and the specification of the problem scope or outcome of each classification.

By far, the majority of studies (48%) with theoretical grounding used economic conceptual frameworks or specific propositions from these frameworks, the most common

being the life cycle hypothesis. The focus of this conceptual approach is to search and account for broad behavior patterns. Human behavior (15%) conceptual frameworks that explain human growth and development and family (12%) conceptual frameworks that explain family functioning and sociocultural processes were the next most prominent categories. Behavior change theories grounded 9% of the studies; these theories have a process orientation, but each theory focuses on specific aspects of behavior change. Social conceptual frameworks were used 10% of the time; their scope is the interpretation

**Table 2. Examples of Semantic Consistency of Theoretical Propositions and Study Purposes across Theory Classifications**

Theory	Study Purpose	Theoretical Proposition
<b>Economic Hypotheses</b>		
Life cycle savings hypothesis	To identify characteristics of self-employed workers and determine factors that lead to increased savings for retirement.	Households accumulate assets during their working lives to finance consumption after retirement when earned income is reduced.
Behavior life cycle hypothesis	To compare effectiveness of estate planning documents in producing charitable transfers.	Individuals use mental accounting systems for different types of assets and investments.
<b>Human Behavior</b>		
Habit formation theory	To explore the relationship between childbearing expectations and financial saving patterns among mature-age, first-time mothers.	Individuals develop minimum consumption requirements as they become increasingly habituated to their most recent consumption level.
Theory of Planned Behavior	To identify factors associated with consumer behavior in completing a debt management plan in credit counseling.	The more favorable the attitude toward performing a behavior, the greater the perceived social approval, the easier the performance of the behavior is perceived to be and the stronger the behavior intention.
<b>Family</b>		
Family resource management model	To examine adjustment strategies of farm men and women who faced economic stress.	Family financial management strategies chosen vary with family decision making settings and with decision maker resources.
Family fundamental interrelationship orientation model	To investigate the relationship among financial decision involvement, assertive conflict mode, and goal achievement for business-owning husbands and wives.	Inclusion, control, and integration are three aspects of interpersonal dynamics and in that order constitute a developmental sequence through which financial viability is sustained.
<b>Behavior Change</b>		
Transtheoretical model of behavior change	To identify how to motivate women to take more responsibility for their financial future.	Increases in financial self-efficacy assist individuals in moving from one stage of change to another.
	To test the applicability of TTM for financial education for six specific financial behaviors.	Successful programs that inspire and support change should meet individuals in the stage of readiness for change in which they fall.

**Table 2 (continued). Examples of Semantic Consistency of Theoretical Propositions and Study Purposes across Theory Classifications**

Theory	Study Purpose	Theoretical Proposition
<b>Sociological</b>		
Social role theory	To determine whether assertiveness impacts a couple's combined portfolio risk and their financial risk tolerance.	Beliefs and expectations of gender social roles influence agency in reference to financial risk tolerance.
Social construction	To investigate gender differences of teens in the ways money is acquired, saved, spent and communicated within families.	The way each gender interacts with money is socially constructed relationally within specific social and historical contexts.
<b>Learning</b>		
Transformative learning theory	To explore factors that influence the likelihood between first-time bankruptcy and repeat filers in completing Chapter 13 repayment plans.	Individuals initiate a cognitive transformation through active interaction with a variety of individuals or groups in their environment.
McKenny-Keen information processing style model	To assess the development of an instrument to measure personal financial management styles.	Due to cognitive styles, individual learners view and interpret the work in different ways and process information differently as a result.
<b>Life Course</b>		
Life course perspective	To assess whether members of four different age cohorts altered their retirement planning activities.	Retirement planning behaviors of individuals are a function of aging within the cohort of the historical, political, and socioeconomic environment of the times.
Age-stratification theory	To examine factors related to retirement preparation of older and younger cohorts of babyboomers using a criteria of having investment assets greater than 25% of networth.	Using age as a primary criterion of allocation, government, business, and family-related institutions channel individuals into different statuses and roles.

of social phenomena and behavior. Learning conceptual frameworks that focus on cognitive functioning and the life course perspective, which analyzes people's lives within structural, social, and cultural contexts, each composed 3% of the studies that had theoretical grounding.

To more fully assess the theoretical foundations used in the journal's research articles, Table 2 presents examples within each general theoretical classification from Table 1. Within Table 2, the specific conceptual framework or theory used in the study is identified as well as the purpose of the study and the theoretical proposition(s) that guided the study. This information is provided to address Sztompka's theory requirements (1974) regarding the designation of theory propositions and semantic consistency within the conceptual language between the study purposes and the theoretical propositions. Studies were chosen that best exemplified

semantic consistency between the essence of the theory, the chosen proposition(s) guiding the study, and purposes of the study.

Conceptual underpinnings derived from economics are quite targeted in that they are hypothesis-driven rather than originating from a more extensive conceptual framework. The focus of the articles that were grounded in economic hypotheses was identification of broad behavior patterns among individuals or households. This focus is aligned with Friedman's (1953) stated purpose for theory. He said that theory in economics was never meant to explain an individual's personal perceptions but rather to account for broad patterns in research data. The life cycle hypothesis assumes that individuals are perfectly informed and strive to create consistency in consumption by borrowing and saving (Ando & Modigliani, 1963). Over time, the behavior life



cycle hypothesis was introduced to better depict individual consumer behavior by incorporating some adaptations from cognitive psychology.

These economic hypotheses were often utilized as the sole conceptual grounding when the journal first began. However, over the years, downward unification became a trend as other theories were linked with the life cycle or behavior life cycle hypothesis to more thoroughly explain the common problem or outcome being addressed in the study. The lack of explanatory power of the life cycle hypothesis was the rationale for integrating it with another conceptual framework. Examples of other conceptual frameworks or theories used with the life cycle hypothesis are symbolic interaction, habit formation, family resource management, and age stratification. The studies using the life cycle hypothesis were primarily organized around a series of demographic variables that predicted some financial behavior, such as age, household size, marital status, and educational level. Only in the discussion did there evolve some potential explanations for the rationale behind what these demographic variables might indicate. Furthermore, using Sztompka's (1974) requirements for a theory, even though support for the life cycle hypothesis was found, pragmatic completeness of the proposition was not met because new problems of an explanatory nature were continually created in place of those that were solved. Conceptual frameworks and theories with greater conceptual depth were needed to provide deeper insight for those studies with complex research questions about financial behaviors.

As a result, theories of human behavior that were used in the journal were adapted from various disciplines to bring that greater insight into the complexity of human behavior dynamics. Human behavior theories seek to explain human behavior from both internal and external perspectives, such as personality, cognition, and social influences. Examples include behavioral theories which focus on conditioning as a key component in learning information and behavior; cognitive theories that emphasize internal states such as motivation, thinking, and attention; developmental theories that explain human motivations and behaviors in terms of human growth; and personality theories that examine the unique pattern of thoughts, feelings, and behaviors of individuals. In this journal, the focus of studies using human behavior theories was either human growth or behavior development related to personal finance. In recent years, the most prominent human behavior theory utilized to guide studies was the theory of planned behavior, a motivational theory that focuses on cognitive processes. In its original form, it only explained

volitional behaviors, but it progressed in its development to explain non-volitional behaviors as well by adding the concept of perceived behavioral control. This theory addresses complexities of explaining and predicting better behavior more than the life cycle hypothesis on which almost half of the studies were based. The theory of planned behavior, although still individually-based, moves beyond the cognitive dimension of behavior. Its propositions have been extensively tested and supported in other disciplines (Armitage & Conner, 2000). There have been applications to financial behavior (Xiao, 2008) with varied support for its propositions; however, while explaining behavior, this theory contributes little to the explanation of financial outcomes over time. Also, the theory of planned behavior explains the links among beliefs, intention and behavior, but offers little explanation regarding the process of how beliefs are formed. In personal finance research, the formation of personal beliefs and values about money and finance is a crucial aspect to examine, in addition to actual financial behaviors and outcomes.

Studies that were grounded in family conceptual frameworks added a relational dimension and the recognition that resources are often shared in a social context. These theories include the complexities of financial decision-making when financial resources are shared, which is more indicative of what most people experience. In the Family FIRO (Fundamental Interpersonal Relationship Orientation) conceptual model (Haberman & Danes, 2007), the primary model proposition outlines the developmental sequence that is needed in order to achieve a successful financial outcome. That developmental sequence includes both structural and process constructs (e.g. inclusion, control, and integration). The Family Resource Management (FRM) conceptual model also includes structural and process constructs. In this conceptual model, there is more emphasis on decision-making processes utilized in the allocation and management of financial resources than in other theories discussed thus far. The primary focus of the FRM is the management of financial resources. The focus of the Family FIRO model, however, is conflict management as a moderating construct between financial resource distribution among family members in order to create and maintain financial viability (a family outcome). These family theories contribute to the understanding of financial outcomes because constructs are not only structural and cognitive but also address family processes and relational aspects of the family social context in which many financial decisions are made and implemented.

The one behavior change conceptual model used most prominently in the journal was the transtheoretical model of behavior change. It is a multi-staged intervention model designed to guide people toward positive actions (Prochaska, 1979). Unlike many other models, this one was developed for the applied purpose of counseling or therapy. Researchers and practitioners use the theory to identify the stage at which individuals are ready and able to change their behavior. Although the model suggests ways in which educators and other practitioners might inspire and support change, there have been questions about its applicability to the personal finance discipline. The model has been most often used in health research, where there is a clear definition of desirable health behaviors (Prochaska & Velicer, 1997). Those benchmarks are not as definitively clear for financial behaviors because what some consider desirable and positive financial behaviors within certain social or cultural contexts may be considered harmful to financial health within other contexts (Lyons & Neelakantan, 2010). For example, in some cultures and social contexts, investing in the stock market is a very rational way to save and grow a family's savings. However, in other cultures, beliefs are such that they do not trust financial institutions and, thus, shy away from such investing. Because the transtheoretical model of behavior change is so intervention-focused, it provides little insight regarding what contributes to the development of healthy and desirable financial behaviors.

The sociological theories have been used primarily in studies when describing the gender differences related to a specific financial behavior. Sociological theories examine social phenomena in the socially-constructed context, emphasizing relational dimensions such as interpersonal relationships, social roles, social structures, and power. Examples of theories under this classification are symbolic interactionism, conflict theory, structural functionalism, and social exchange theory. Although many of the other conceptual frameworks and theories are primarily grounded in the cognitive domain, these theories recognize that social context contributes to the construction and development of financial behaviors. Examples of sociological theories that guided some of the research studies in JFCP are social role and social construction theories. Social context, in this set of theories, refers to the more global societal contexts that create expectations for genders. These more global social contexts contribute societal values, such as materialism, that influence people's financial decisions and behaviors; these more global social contexts, however, do not have as central an influence on people's financial decision making and behavior patterns as do the

psychological and emotional core (financial beliefs, attitudes, and values) people adopt within the social context of the family. Sociological theories abstract and essentialize broad behavioral trends on a societal level, but they are inadequate by themselves in accounting for individual-level behaviors without the mediation or moderation of smaller-scale contexts.

Learning models are another theoretical classification that addresses how change is initiated cognitively. One of the learning models used in JFCP studies focused on information processing styles. An example is the Prochaska-Cue study (1993) when the combination of McKenny-Keen's information processing model (a learning model) and Deacon and Firebaugh's family resource model was used to develop a personal financial management style measure. When developing measurement instruments, as in the Prochaska-Cue study, it is critical that they be theoretically based. Doing so allows for upward unification between theories, as described by Sztompka (1974), giving greater credence to the theory propositions. Numeracy and the ability to reason with numbers are cognitive concepts from learning models that have received attention in recent years in attempting to explain variations in financial literacy and behavior (Xiao, Collins, Ford, Keller, Kim, & Robles, 2010).

A second example of a study that used an adult learning theory investigated people who have repeat bankruptcy filings (Loibl, Hira, & Rupured, 2006). The study used transformative learning theory as its theoretical grounding. This theory is not just about content or process learning but examines what it takes to move from a limited knowing without questioning (usually from one's culture, family, organizations, or society) to assessing and evaluating new information to reframe and expand one's worldview (Cranton, 1994).

Life course perspective is described as a perspective rather than a conceptual framework or a theory because its propositions are at a very global level. Similar to the aim of the life cycle hypothesis from economics, it describes broad patterns across cohorts. This perspective brings to the study of personal finance a recognition that within different life cycle stages, certain financial concerns and decisions are given greater priority compared to other times in life.

In summary, the discipline began with a prescriptive approach to financial education and counseling, and the conceptual grounding for research in this journal was quite simple, reflected in the wide use of the life cycle hypothesis that is grounded in economics. As the financial education and

counseling professions advanced to an orientation that was more inclusive of individual beliefs, values, and goals, research necessitated greater conceptual complexity. Thus, the discipline reached out to theories in other disciplines that were more behavioral and sociological in nature.

However, as researchers, educators, and policy makers began to ask about the influences of behavior change and resulting behavior outcomes over time, even more complex theories were utilized. Because of the complexities of behavior change and outcomes, studies need to be clear about the dimension of that conceptual complexity addressed by the research questions. Furthermore, these studies need to use the theory most appropriate for the specific conceptual dimension that the research is studying. For example, the transtheoretical model of behavior change was developed to address addictive behaviors. The question remaining is if this theory's constructs and assumptions are appropriate to explain change in financial behaviors that do not involve addictive characteristics. Many questions, like this one, remain to be explored in future research and in theoretical discussions.

Additionally, in recent years, new research has given greater attention to the social contexts—primarily family and school—where people are first financially socialized. However, there is a major theoretical gap because there is little theoretical grounding that exists to explain these socialization structures and processes. Furthermore, the assumption is that this socialization occurs primarily during childhood, discounting the life-course financial socialization process that happens as people age and progress through various family life cycles.

Consequently, there are several trends and gaps in the use of theory by the studies published in JFCP from its inception in 1990 through 2012: (a) using broad economic models that are conceptualized to explain population trends to account for individual behavior across a single lifespan; (b) adopting a single lens of rational choice and cost-benefit thinking to examine more complex, multiply-driven human motivation and behavior; (c) using individual-based human behavior theories and examining human motivation, cognition, and behavior without contextualizing the individual as embedded in a family environment—with a particular set of resources, demands, and interaction patterns—that mediates and/or moderates societal influences; (d) using family- and societal-level theories in a deterministic way without taking into account the individual and interpersonal processes of learning information and behavior; and (e) framing the development of

financial behavior as time- and situation-specific, rather than an ongoing process that traverses different life-cycle stages and life domains.

In view of these gaps, we need to consider some critical questions that can guide future research in this discipline, such as (a) how do family interactions and relationships affect financial socialization throughout the life course at various turning points; (b) what motivates change in people's financial behavior so that they move from healthy to unhealthy behaviors and vice versa; and (c) what personal and family characteristics affect purposive financial socialization? In order to answer these questions, it is useful to reframe personal financial behavior and behavior change as a socialization process. That process would take into account the individual, the immediate context, and the interactions between individuals within that context (all of which are situated in a broader sociocultural sphere), rather than just an individual cognitive process or a socially predetermined sequence. In the latter part of this article, we will explore a conceptual framework that begins to answer the questions posed above and that reframes personal financial behavior and behavior change in the manner described.

### **Looking to the Future for Financial Literacy Theory Development**

Financial literacy is more than the individual concept of accumulation of knowledge. Instead, it is the ability to interpret, communicate, compute, and develop independent judgments, and to take actions resulting from those processes, in order to thrive in the complex financial world (Danes, 1994; Roberts & Jones, 2001; Xiao, Shim, Barber, & Lyons, 2007). Sherraden (2010) has labeled this more inclusive definition as financial capability rather than financial literacy. Considering these definitional controversies, most financial socialization occurs within families, but this kind of socialization is more comprehensive than simply learning to function effectively in the marketplace. It is a process of acquiring and developing values, attitudes, standards, norms, knowledge, and behaviors contributing to financial capability and individual and/or family well-being (Danes, 1994). This process continues across different life cycle stages in varied family contexts through multiple channels, rather than being confined to the purposeful education of youth on personal finance topics. Current personal finance and financial education research, however, does not reflect the complexities of these processes and neither do the theories in which that research is grounded. Therefore, we argue that the Family Financial Socialization conceptual model, which we describe in detail later in this



article, can serve to connect seemingly scattered existing research findings in the personal finance domain, to offer researchers consistent and conceptually precise theoretical language, and to generate insightful and feasible hypotheses for future research in the process of theoretical refinement within the discipline.

Personal finance research has primarily concentrated on the cognitive domain and has largely ignored reasons for sociodemographic differences in financial outcomes (Gudmunson & Danes, 2011). We know little about the factors driving these differences across sociodemographic characteristics. Further, an underlying assumption within personal finance research has been that financial behaviors are entirely volitional (Danes & Haberman, 2007). The current research includes little emphasis on the attitudinal and belief domains of the social contexts in which individuals were socialized about finances or on the non-volitional aspects of personal finance (Gudmunson & Danes, 2011).

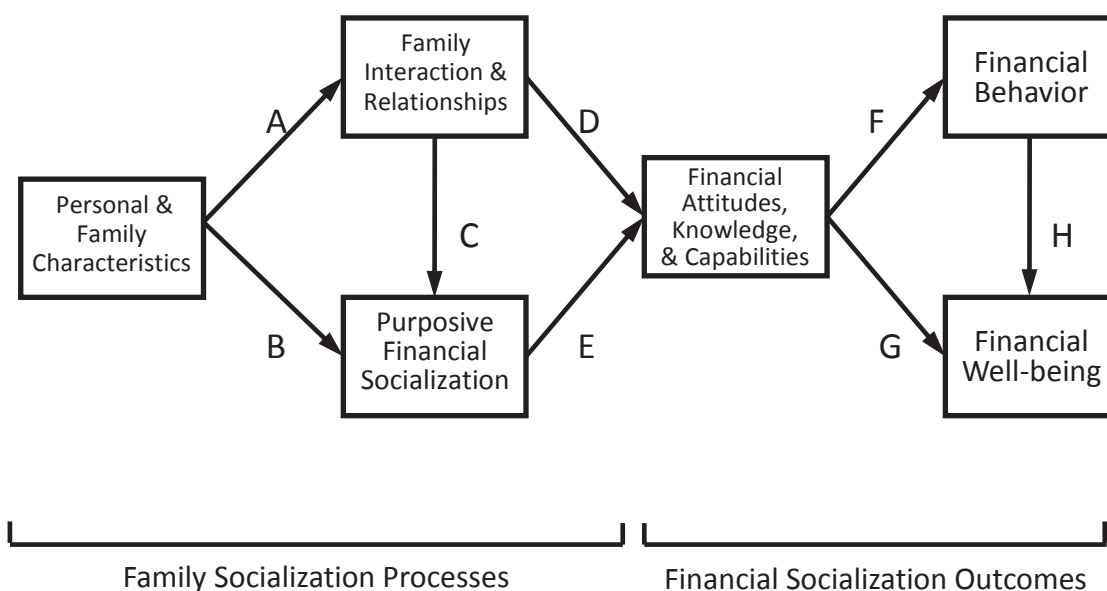
Much recent research was done by researchers who were trained as economists and tended to use aggregate, secondary, and attitudinal self-report data. The existing research gives little recognition to the importance of social context in the socialization of youth about finances, whether that social context is culture, family, or the educational environment. Relatively little is known about how family socialization (as exemplified in personal family history, experience, skills, beliefs, and values) affects patterns of action over time. As a

result, we know little about the initiation and termination of desirable and healthy financial behavior patterns either. We do not have much in-depth knowledge about youth and finances as they transition to adulthood and create new families, about how they perceive their finances, or how their normative conceptions of attitudes and activities are reinforced or redirected to facilitate or create behavior change (Beutler & Dickson, 2008). Further, there is little recognition of the fact that financial socialization continues throughout one's lifetime, especially as we begin to share resources with life partners who may or may not have similar beliefs and values about finances and financial management (Gudmunson & Danes, 2011).

More conceptual precision and clarity are needed about what constitutes financial behaviors as opposed to financial outcomes. There needs to be more investigation into financial behavior patterns or turning points and the decision making surrounding those turning points. Turning points include changing from what might be considered desirable financial behaviors to more undesirable behaviors as well as from more undesirable behaviors to desirable ones.

In response to this literature gap on financial socialization, Gudmunson and Danes (2011) did a critical literature review and created a conceptual model emanating from the content of that critical review. That model is the Family Financial Socialization conceptual model (Figure 1), a multidisciplinary model drawing from family studies and financial literacy

**Figure 1. Family Financial Socialization Conceptual Model**



perspectives. Such an approach has the potential to greatly enrich our understanding of the development of financial literacy in emerging adults and within couples and families that share resources and bring together varied financial values, attitudes, knowledge, beliefs, and behavior patterns.

Gudmunson and Danes's 2011 article was only the first step in the development of a conceptual model. In this first introduction of the Family Financial Socialization model, concepts that needed further investigation were highlighted and possible mechanisms underlying the effectiveness of personal and family characteristics as predictors of financial behavior and well-being were explained. According to Sztompka's (1974) criteria, specification of the properties and scope of the problem and outcome of the model was provided. Thus, the next developmental step for the conceptual model is to clearly specify the general assumptions and hypotheses of the model so that they may be tested in future research within the discipline. That is the aim of the next section.

### **Family Financial Socialization Conceptual Model**

When children are very young, family is the primary socialization unit for learning about finances; family serves as a filter for information encountered in larger social contexts (Danes, 1994; Danes & Haberman, 2007). As adult children begin their own families with their chosen life partners, they enter that life partnership with the financial behavior patterns that they internalized as children. When sharing financial resources with their life partners, they need to negotiate diverse socialized financial patterns to create couple patterns of financial processes and outcomes.

Unlike other conceptual models or theories used in personal and family finance research, the Family Financial Socialization (FFS) model is composed of two dimensions: (a) family socialization processes and (b) financial socialization outcomes. FFS's major contribution is its inclusion of family interactions and relationships and purposive financial socialization. Purposive financial socialization incorporates the volitional aspect of socialization, which is deliberate and planned. However, considerable socialization that occurs within a family is unconscious and non-volitional. Many fundamental financial beliefs, attitudes, and values are acquired in an osmotic fashion while interacting as a family over time (Jorgensen & Savla, 2010). An explicit assumption of FFS is that the relative effect of family socialization varies over the life course with respect to other socialization agents and contexts. There are two primary life cycle stages when this socialization process is at its peak in influence. Those two

stages are (a) when children are young and developing and (b) during the initial stages of joining shared resource bases during the formation of life partnerships.

FFS pathways are designated by letters of the alphabet. Each pathway designates relationships between model constructs and relationship directions. For each FFS pathway, we have presented a short literature summary of the justification for those constructs and their relationships. A more detailed literature grounding can be found in Gudmunson and Danes (2011). Each pathway section ends in hypotheses statements to be tested in future research investigations. With future research findings, greater specificity can be brought to the hypotheses statements as FFS progresses from a conceptual framework to a theory. According to Sztompka (1974), the next developmental step for the FFS model should be to test the hypotheses so that they can be justified with positive results in order to create pragmatic completeness. Creating pragmatic completeness means that in testing hypotheses, not only are results positive, but also those findings do not create new explanatory issues in place of those that have been resolved. If research results are not positive, then the research needs to specify a revised hypothesis to be tested.

### **Pathways A and B**

Pathways A and B represent the relationships between personal and family characteristics and family interactions and relationships (Pathway A) and purposive financial socialization (Pathway B). Personal characteristics, such as gender and age, and family characteristics, such as household size, family development stage, and socioeconomic size, have been prominent in past research in explaining financial outcomes (Gudmunson & Danes, 2011; Xiao, Ford, & Kim, 2011). When demographic characteristics are treated as predictors, the focus is on explaining why their effects exist but when they are used as controls, these characteristics represent "unknown factors" that reduce potential spuriousness. Those "unknown factors" are most often socialization processes. FFS suggests processes that might provide a deeper understanding about why these effects exist (Gudmunson & Danes, 2011). In FFS, these characteristics are treated as predictors rather than controls. This action recognizes the socially-constructed influence that these characteristics have on interactions, relationships, and social processes.

Early on, researchers such as Moschis (1985), Danes (1994), and Alhabeeb (1996) indicated that parents not only impact children's socialization via purposive, deliberate teaching and practice, but they also implicitly play a role in

financial attitude, knowledge, and capability development through everyday family interaction and relationships. In demonstrating that financial socialization occurs over the family life cycle, Danes, Fitzgerald, and Doll (2000) found that relational characteristics predicted financial decision outcomes and processes to a greater degree than both sociodemographic and family financial characteristics. Furthermore, when couples were under economic stress, satisfactory financial discussions were positively related to involvement in financial decision discussions (Danes & Rettig, 1993).

Personal and family characteristics in the FFS model represent the two conceptual categories of demographic characteristics that have been in much of the previous research. Unlike economic hypotheses, personal and family characteristics in FFS are posed as predictors of family socialization processes rather than as control variables because they explain differences in socialization patterns. Hypotheses A and B are thus posed:

H7: Personal and family characteristics influence family interaction and relationships.

H8: Personal and family characteristics influence purposive financial socialization.

These characteristics can have either enhancing or constraining influences on family interactions and relationships or on purposive financial socialization (Danes & Morris, 1989). At this early stage of conceptual framework development, we do not know enough to hypothesize which characteristics will be enhancing or constraining. For instance, being part of a collectivist culture might affect saving and investment strategies in a much different way than would being part of an individualistic culture. We also do not know the effect of communal savings strategies, carried out by parents and observed by children, that are used to create educational opportunities for designated youth within the family/clan/tribe. In turn, these youth may be obligated to reinvest a proportion of their future income to others younger than themselves. Future research will refine FFS's hypotheses as researchers explain the role of demographic variables found to be significant in previous studies.

### **Pathway C**

Pathway C indicates a relationship from family interaction and relationships to purposive financial socialization. Families provide an informal environment in which parents teach children skills and develop shared understandings of what is acceptable behavior. As a result, family dynamics play a unique role in socialization. It is the context where parents

influence children's financial growth and development. Children witness informal skills, demonstrated by parents in their daily actions, that often involve finances (Danes & Haberman, 2007). Parents explicitly impact children's financial socialization via purposive, overt teaching, modeling, and practice. They also implicitly impact children's financial attitude, knowledge, and capability development through everyday family interactions and relationships. Within this environment of financial interactions between parents, children acquire information about how the family views financial processes through observation (implicit integration) as well as purposive means (explicit).

However, family is also the context in which two frequently disparate sets of values, attitudes, and beliefs about money are blended as people join with their life partners and make decisions about shared resources. Financial satisfaction-dissatisfaction has generally been a private feeling expressed within the confines of a family home. For example, marriages can be enhanced or suffer conflict depending on the level of satisfaction couples have with their financial status (Parrotta & Johnson, 1998). In addition, financial processes include gender roles around financial management that are related to both decision making and implementation of the financial decision being made (Hibbert, Beutler, & Martin, 2004). In both the parent-child context and the couple context of financial socialization, effects are both explicit and implicit. Thus Hypothesis C:

H9: There is a positive relationship between family financial interactions and relationships (implicit socialization intention) and purposive financial socialization (explicit intention).

### **Pathways D and E**

Pathways D and E represent a relationship between family interactions and relationships and financial attitudes, knowledge, and capabilities (Pathway D) and between purposive financial socialization and financial attitudes, knowledge, and capabilities (Pathway E). The place of family within financial socialization processes is multifaceted and complex due to the nature of family dynamics. Children may emulate behaviors their parents demonstrate in their financial practices, making similar financial decisions as a result of observation and modeling (Bakir, Rose, & Shoham, 2006; Mandrik, Fern, & Bao, 2005). For example, Flouri (2004) found that maternal parenting involvement, measured by items such as spending time together and setting rules, was negatively related to the development of children's materialistic attitudes. Kirchler (1988) found that marital

quality influenced the way spouses made purchase decisions, with spouses in good relationships exhibiting more persuasive power. Parents influence children's norms and values, such as thrift, saving, and materialism, that in turn affect financial behaviors. Time preference (Fisher & Montalto, 2009), the ability to delay gratification (Lawrence, 1991), and motivation (Mandell & Klein, 2007) have all been found to be associated with desirable financial behaviors.

Much research interest has been directed at parental efforts in children's socialization (Beutler and Dickson 2008; Clarke, Heaton, Israelsen, & Eggert, 2005). However, purposive financial socialization occurs bi-directionally and via many family relationships, not solely from parents to children. FFS indicates that these efforts vary by race/ethnicity and nationality, reflecting cultural differences that impact the purposive financial practices family members use to influence each other (Danes, Lee, Stafford, & Heck, 2008). Characteristics such as gender, age, family structure, and family relationship type highlight family roles tied to cultural values and norms that underlie financial practices. Income, education levels, and occupation underlie a family's ability to enact desirable financial practices. For instance, parents with higher-status occupations and higher income levels are more likely to offer a regular and larger allowance (Barnet-Verzat & Wolff, 2002). Furnham (1999) found savings rates were higher among adolescents from higher income families.

Examples of family interactions and relationships include time use priorities, relationship climate dimensions, communication patterns, decision making, and conflict management processes. Such constructs delve deeper into family behavioral patterns. These behavioral patterns inform practitioners about socialization effects on family financial outcomes across the life course. However, unless we differentiate—yet at the same time link—the implicit and explicit aspects of family socialization, the understanding of the relationships between the constructs will remain shallow (Jorgensen & Savla, 2010). Thus, Hypotheses D and E:

H10: Family interactions influence financial attitude development, knowledge transfer, and financial capability development.

H11: Purposive financial socialization occurs bi-directionally in its influence on financial attitude development, knowledge transfer, and financial capability development.

The influence of family interactions and relationships and purposive financial socialization upon financial attitudes, knowledge, and capabilities can be either enhancing or

constraining. More research is needed to distinguish the unique effects of these influences.

### **Pathways F and G**

Pathways F and G indicate relationships between financial attitudes, knowledge, and capabilities and financial behavior (Pathway F) and financial well-being (Pathway G). Financial attitudes, knowledge, and capabilities are socially-imbued individual characteristics developed over time. Capabilities are used in FFS rather than skills because skills emphasize what is done proficiently whereas capabilities is a broader concept that considers an individual's ability to operate within the financial structures that provide opportunities and constraints in a society (Johnson & Sherraden, 2007; Sherraden, 2010). The term also refers to internal sources of motivation such as self-efficacy, values, perceived needs, and living standards (Gudmunson & Danes, 2011).

Family as a social context is composed of a complex array of sets of socially-imbued characteristics. Individual family members will have their own repertoire of attitudes, knowledge, and capabilities but there will also be a couple or family set of these characteristics. For example, individuals in a couple relationship will need to integrate their individual repertoire of financial attitudes, knowledge, and capabilities into a cohesive "couple" repertoire for effective couple financial decision making to occur. If communication and mentoring about finances occurs with children in developmentally appropriate ways, a family may create a family unit repertoire of financial attitudes, knowledge and capabilities.

Even when external conditions are similar, there will be variations in what individuals are capable of achieving based on their financial attitudes, knowledge, and capabilities or those of the families from which they originate. Financial outcomes are reflective of patterns of action over time as well as financial turning points and decision making for individuals and their families. Financial turning points and decision making around those turning points include initiation and termination of active and passive financial processes.

Financial well-being is reflected through both objective and subjective indicators that need to be treated as two distinct concepts. The two types of indicators are often correlated but frequently have different predictors (Sumarwan & Hira, 1992; Gutter & Copur, 2011). For example, household income and net worth are objective financial indicators of well-being. Income adequacy, however, is a more subjective indicator of



well-being that incorporates the complexity inherent in the gap between a person's perception of that income or net worth and some internal standard the person carries. Two different persons could have the same income or net worth level but perceives different opinions about their well-being and, as a result, act in different ways financially. As with other model relationships, the influence of financial attitudes, knowledge, and capabilities on financial behavior or well-being can be either enhancing or constraining. Thus Hypotheses F and G:

H12: Financial attitudes, knowledge, and capabilities influence financial behavior.

H13: Financial attitudes, knowledge, and capabilities influence financial well-being.

### Pathway H

Pathway H indicates a relationship between financial behavior and financial well-being; the influence of financial behavior on financial well-being can either be enhancing or constraining. Financial behavior is often viewed as the cornerstone of financial well-being. FFS, however, makes a conceptual differentiation between financial behavior and the financial outcome construct of financial well-being, and Xiao (2008) suggests that this distinction is critical for advancement of research within the discipline.

Much of the personal and family finance research is cross-sectional. In the future, more longitudinal research that follows the same people at multiple points in time is needed to investigate financial behavior changes and resulting effects on the financial well-being of individuals and families. These varied time points of data are like "snapshots" in time that allow not only a window into financial turning points requiring decisions in people's lives but also their behavior at those time points. Patterns in behavior can then be observed to discover motivations for initiating, terminating, or repeating certain behaviors. Such longitudinal data also allow for a comparison of people's view of their well-being at each of the time points. Thus, Hypothesis H is as follows:

H14: Financial behavior impacts financial well-being.

### Conclusions and Implications

The first point of discussion in the assessment of use of theory in the *Journal of Financial Counseling and Planning* is that between 1990 and 2012, only 39% of research articles were explicitly guided by either a conceptual framework or a theory with specific theoretical propositions. Greater efforts need to be made to conduct research studies that interconnect the research questions and analyses with a theoretical grounding. The low number of theory-based research articles calls for

authors submitting manuscripts to think more theoretically about their research. It also suggests that the journal's editorial board should place greater emphasis in their authors' guidelines on research that is theoretically based. Early in the life cycle of a discipline, atheoretical research might be expected. However, the personal finance discipline and the *Journal of Financial Counseling and Planning* are now in their third decade of existence; at this point, the theoretical grounding of research should be a standard for which all researchers publishing in the journal should strive.

Second, almost half (48%) of journal articles with a theoretical grounding used some version of the life cycle hypothesis from economics. Friedman (1953), early on, stated that theory in economics was never meant to explain an individual's personal perceptions but rather to account for broad patterns in research data. Life course perspective, used in some of the research published in JFCP, has a similar aim of explaining cohort patterns. Many other conceptual frameworks utilized in research are cognitively oriented. The conceptual frameworks from human behavior science or those targeting individual behavior change explain different aspects of an individual's behavior. These conceptual frameworks, however, do not explain financial outcomes which include not just a person's own behavior but the familial contexts (either family or origin or family of procreation) in which that behavior is grounded or the dynamics of decision processes. The small amount of research using social or family theories has attempted to provide some insight into the context in which financial behavior occurs and financial decisions are ultimately made.

The majority of the JFCP journal research from 1990-2012 is cognitively- and individually-based. Research with these emphases is important in order to understand how individuals establish desirable financial behavior patterns. In fact, behavior economists have contributed to this research stream in recent years by investigating the human preference for the status quo and how human misperceptions evolve as well as how to develop better choice-making and maintenance of desirable behavior patterns (Thaler & Sunstein, 2008). However, to concentrate research efforts entirely in the cognitive and individual domains represents an attribution error because most financial socialization occurs within families over the life course. Social contexts, where children learn about financial decision making, adult decision making occurs, and financial resources are shared, have only been studied to a limited degree. Understanding the dynamics of financial socialization and the social contexts in which people make decisions will inform not only the development



of desirable financial behaviors, but also the outcomes of those behavior patterns. Studying financial socialization will contribute to the understanding of behaviors and decision making at turning points when people either begin or end desirable financial behaviors.

Socialization starts with a person's family-of-origin, the context in which they develop, and continues through to their family-of-procreation, where they share financial resources with their life partner of varied financial dispositions (Gudmunson & Danes, 2011). To begin to address the attribution error represented in the primary research focus on individual and cognitive domains, the Family Financial Socialization (FFS) conceptual model with proposed hypotheses was outlined as one alternative theory to guide future research along with the theories currently used. FFS is a conceptual framework in its infancy that meets the first three requirements for theory development stipulated by Sztompka (1974). In this article, the properties and scope of the research problem and the outcome of FFS theory were specified. Also identified were general assumptions designating the relationships between theoretical constructs. Testable hypotheses were also presented.

The next step is to develop research studies specifically designed to test these hypotheses. FFS suggests that the creation of desirable financial behavior and motivation for future financial behavior change emanates from family interaction and relationships and from purposive financial socialization. Because of family financial socialization complexities and the cultures families are nested in, FFS recognizes that relationships among its constructs can either enhance or constrain financial behaviors or well-being. Since so little existing research relates to the conditions and processes of financial socialization over the life course or to the effect of financial socialization on the development of desirable financial behaviors and their impact on financial well-being, more research is needed to facilitate the development of hypotheses statements with finer specificity. Future research incorporating FFS's hypotheses will create a greater understanding of the reasons why variables such as gender, age, and socioeconomic status contribute to varied financial behaviors and outcomes.

However, in order to analyze research data on financial socialization, the data must first be available. A challenge exists for financial management researchers to search for funding for such research utilizing the FFS theory and to develop measures that serve as indicators of FFS constructs.

Examples are the adolescent money attitudes scales recently introduced by Beutler and Gudmunson (2012).

Educational programs at universities preparing future researchers should reexamine the content of their program requirements, and greater theoretical grounding for students should be suggested. Those programs should also consider a greater emphasis on understanding human behavior and socialization along with promoting a greater understanding of the family context in which financial resources are shared and where initial socialization about money occurs. In addition, greater emphasis needs to be placed on longitudinal methodologies because understanding human behavior patterns and change, family financial socialization over the life span, the starting and stopping of desirable financial behaviors, and the effects of these behavior patterns on financial well-being, includes investigating trajectories over time.

The theoretical orientation of the first two decades of personal finance research in the *Journal of Financial Counseling and Planning* can be metaphorically compared to a pile of bricks. This article has assessed the "bricks" that represent research conducted in the first stage of the development of the personal finance discipline. In moving into the next stage of disciplinary development, FFS is one contribution to the theoretical "mortar" that will allow the field to create a house out of that pile of bricks. FFS adds both a contextual and a socialization dimension to the understanding of financial well-being. Thus, the attribution error reflected in a primary focus on the individual and the cognitive is addressed when research is grounded in this theory. Still, additional work lies in the training of future researchers, in the development of future research studies, and not only in the theoretical approach but also in the methodological approach.

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