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The value based analysis of the financial culture

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Abstract

Financial culture and financial literacy has become more and more highlighted during the latest years. This increased attention is due to the financial crisis, because the negative effects are mostly caused by the insufficient financial literacy and the misconception of information. Several countries have tried to develop financial consciousness, but there have not been any real changes. The main goal of this article is to represent the different approaches of financial culture and literacy according to the relevant literature; by investigating its different projections, then to present an analysis of financial culture by its value according to a Hungarian primary research.

Keywords: *financial culture, financial literacy, financial knowledge, money-value, primary research*

1. Overview of literature

Life is a serial of changes and decisions, which may define fundamentally our life in the future. These decisions and choices are formed by the circumstances and factors, for example values, cultural attitude or our perspectives. The mentioned human factors are usually called the individual's cultural factor, what can never be related to one single person but to a smaller or larger group of people, because culture never belongs to one person. The cultural characteristics of a person are formed by learning and socializing and this process influence our financial activity as well. What is more nowadays we can find such a strong relationship, which has led to unite the two notions. Financial culture is not a new conception, it was used already in the years 1900 (Kovács et al, 2012). We are speaking about a financial expression, which has never had any exact definition accepted. The recently published articles have given us different ideas and theories about the meaning of this expression, what is more they are still discussing if financial culture is an expression or a concept!? Béres and his colleagues say that financial culture is more than a definition, so it can be a special concept. According to this conceptual point of view, financial culture means financial literacy (financial knowledge) and experience, but also financial skills and financial consciousness; and all of these are present at the same time. (Béres – Huzdik, 2012).

Several experts agree that financial culture can be connected to financial knowledge in most cases. Beyond that, conscious behaviour is generated by not just having but also using financial knowledge. Using our financial knowledge may generate conscious and responsible decisions, which can reduce the amount of future risk, the financial insecurity of households and can make personal finances more calculable. The financial culture mainly affected the financial behaviour and practice as well (Bárczi – Zéman, 2015). Nagy and Tóth (2012) emphasise, that conscious behaviour of people would be essential. In the lights of financial consciousness people can learn the advantages and risks of financial services and can keep their investments at an optimal level.

Financial culture is also that kind of definition which integrates the cultural values of a community and can find interdependence between its characteristics and the quality of the community's financial decisions. According to Süge, financial culture includes everything that helps people to find their ways in financial questions and can create comfort. (Süge, 2010). The article about this topic, published by the Hungarian National Bank (MNB) unambiguously suggests the definition of financial culture. The supreme organisation of monetary politics of Hungary states, that financial culture is the level of financial skills and literacy, where individuals are able and ready to make sense of basic financial information and make conscious decisions. They are also able to estimate the future risks of their decisions, can interprete and examine them in financial terms. (MNB, 2008). The term "financial culture" is not really current in articles written in English, this factor is mostly defined by "financial literacy". The most important component of financial skills is financial literacy. By this approach financial literacy is a basic characteristic of financial skills, which skills must be learned by the individuals. (Atkinson – Messy, 2012).

Financial skills are not inborn skills, so it becomes a more and more important question how to gain these skills. Xu and Zia in their article from 2012 explain the idea of financial literacy. By their interpretation this notion includes financial consciousness and knowledge, including the awareness of financial products, institutions and concepts. According to Xu and Zia (2012) financial literacy can not be advanced where people do not understand and can not calculate compound interest and individuals are without the skills of finding their way in finances and financial planning.

Lusardi and Mitchell's article from 2014 states that well-informed and racionally thinking individuals spend much less when they have more income, they save money in order to secure their future if their income may decrease. (Lusardi – Mitchell, 2014). With this statement Lusardi and his partner create the synergy of consciousness, responsibility and financial decisions, since individuals always have to be prepared to a financial setback or any unexpected expenses. Financial culture or financial literacy can express the individual's expectations about future, since the demand on financial culture is stronger for people who want to calculate with more calculable, plannable and predictive financial processes, so they try to learn them better and analyze financial environment more deeply. in this form financial culture requires knowledge and also associates with responsibility and racionality, since individuals should be interested in achieving better and better accomplishment and should try to avoid disadvantageous financial events (e.g.: losses, high risks or precarious financial actions).

The economical crisis was an excellent example of precarious financial actions and pointed out the importance of financial culture. (Kovács et al, 2012). Not only businesses, but also individuals and households suffered from the negative effects of the crisis. Huston mentions in his article from 2010 that the confirmation of financial literacy should be a central goal, since it could be a very important tool to increase social comfort. Huston emphasises that the recent critical period of mortgages, the indebtedness of consumers or the break-down of households are all proving the importance of financial crisis. The author emphasises also that although many publications have defined the meaning of financial literacy, less researchers have dealt with its measurement. (Huston, 2010).

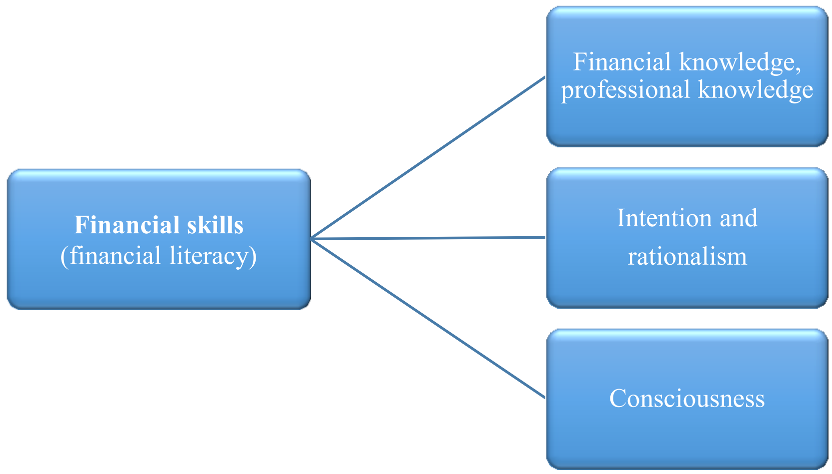
The development of measuring methods would be important to become able to improve individuals' financial skills. Most of the financial skills are not inborn, so they need to be improved and extended. So it matters, when, in what period of their lives, individuals try to learn these skills, and it is not by coincidence that the responsibility of socialization, family and the education system come into prominence. However it was not only the economical crisis to point out the importance of financial literacy (culture). According to Botos and his colleagues the demand of financial culture has become more precious, because some financial products have turned up in the last 30 years, and their risks could not be estimated even by experts because of their complexity. (Botos et al, 2012).

The complexity of our economical environment and the increasing complexity of financial markets oblige the participants of economy to have analyzing skills which let them make financial information digestive and explainable by them. According to The Financial Literacy Annual Report published in 2014 consumers have to become able to analyze expenses, costs, risks and results, especially those which can be directly connected to their lives, like financial products, services and decisions. Individuals must be able to make effective decisions, get out of poverty and have to know who to turn to ask for financial help. Steps and action must be made to improve present and future comfort and form financial expectations. (Financial Literacy Annual Report, 2014).

By developing financial culture, the individuals' knowledge about financial products and expressions can widen, people can learn how to deal with risks or to make decisions, which affect less unfavourably their future economy. The question with responsibility is often connected to the idea of financial culture, as we have to be able to choose among financial services according to their risks and dangers. (European Commission, 2007).

Financial culture and financial literacy is very often related to the question of reducing risk. As business culture is mostly defined by our skills, the level of financial culture can be defined by the quality of our financial skills. In this sense, financial culture is the complex of the financial skills shared by the personages of the economy and their level of quality. Of this sort, financial skills can be explained with the complexity of three components. (Table 1.) To start with we can mention financial knowledge, competence and the ability of analysing, all these facilitate the understanding of financial processes. But it is not enough to be in procession of knowledge and competency. Individuals must have the desire for learning, making perfect and using these skills while making financial decisions. And –as a third factor- appears awareness, to embody the desire for computability, security and planning.

Figure 1.: The components of financial skills defining financial culture



Source: own compilation

If we wish to express financial culture with the help of a function: financial culture (FC) and financial skills (FS):

$$FC\ (x) = f\ (FS)$$

This nexus is confirmed by Hung and his colleagues in their article if 2009, with the title: Defining and measuring financial literacy (A pénzügyi műveltség definiálása és mérése). In this article the authors highlight that financial literacy means skills, how individuals can manage their finances through their knowledge and skills. With the help of all these they can become able to form their comfort and prosperity. (Hung et al, 2009). Financial culture leads to the realization of individual goals and interests through the perfect utilization of skills. Among others, this connection was confirmed in Mandell and Klein's article (2009) where they state that articles about financial culture usually agree that most of the consumers do not have a satisfactory level of financial literacy despite the fact that they would be very important when making financial decisions, in their own interest. According to this interpretation, with their lower financial skills individuals put back the realization of their own interest, so the status of financial culture is important not only because of the financial stability of the economy, but also from the perspective of the realization of the individuals' short- and long term aims.

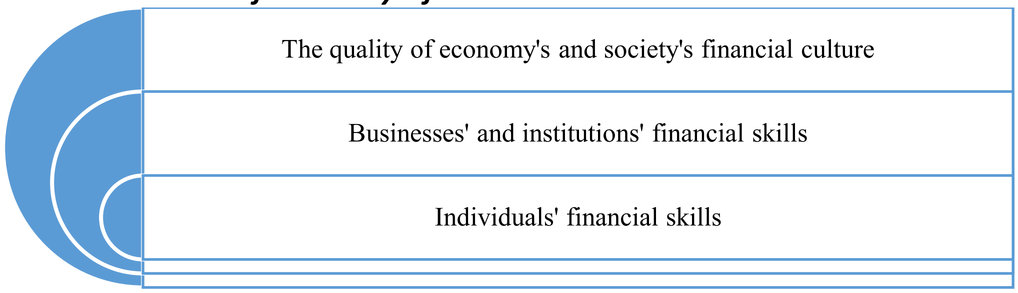
In their common article OECD and World Bank reinforce this above statement, according to which financial literacy means the series of skills which can be important to both the consumers at the markets of the well developed countries and for poor people as well. (OECD – World Bank, 2012). Financial culture can be interpreted not only at hte level of individuals and communities. According to Rumyantseva financial culture is strongly related to business culture. Pursuant this approach forming business culture helps individuals to get into understanding financial processes. While we are forming business culture we have to create financial processes and their communicative channels. In order to learn the financial environment, market research must be done then involve employees to let them learn financial processes and basic financial expressions. Precise and fast financial reports must be done which help to understand the up-to-date status and can be useful during the process of learning. Well-defined and well-known financial aims must be stated which are known by every involved person. All these factors help to make the company more transparent and successful in financial terms, but also the involved people can feel more responsibility, can learn consciousness and can use all these in their households. (Rumyantseva, 2013).

In consequence, financial culture is not a definition what belongs to one person but to a community, to a business or to the whole society. Several similarities can be found in different explanations. The development state of financial culture is beneficial to financial decisions and indirectly has positive influence on economical processes and on the evolution of welfare. All experts agree that adequate financial culture help us to become more experienced in financial processes, to make financial decisions more reasonable and inspire us to more responsible financial management, with future end in view. Almost everybody agrees that financial culture is a complex notion and it may cause the fact that it does not have an accepted definition yet. After all, the definitions agree that professional competence and the needed knowledge is essential so they must be continuously improved.

Financial culture is not else but the complex of skills and abilities which help us to give more effective answers to changes which directly influences our financial affairs. The learning process does not only mean how individuals can gain their financial knowledge but people can get in relation with businesses, with their financial decisions and all these can develop people's mentality about finances. Beside individuals's financial culture we have to define the given organisations' and institutions' financial culture as well, because they can influence people's financial mentality. All these assign the level of financial culture of the society, the economy and the different branches of industry, what can be considered as a very important source of competitiveness when we speak about national economy. It is a very important question, not only from the perspective of the development of different countries but also for the sake of the individuals' and businesses' goals.

High quality financial culture shows that economy's characters have financial skills (financial literacy) which involve better awareness of responsibility, endeavour to safety, foresight and professionality. All these does not mean that countries which have high quality financial culture keep themselves clear of risks or would not invest. On the contrary, they do but with more racionalism, expecting the factors which may disadvantageously influence their future. According to this approach financial culture is not just the complex of financial skills, but also the economy's characters' behaviour and attitude to planning, prediction and simplicity in their financial affairs.

Figure 2.: Possible levels of a country's financial culture



Source: own compilation

Measuring and improving the financial culture and literacy is a key topic nowadays. Number of studies examines it, and make recommendations. OECD outlines the importance of financial education and the development of financial culture in the afore mentioned document, based on the following reasons:

- the increase of the complexity of bank and financial products
- the increase of the number of financial products
- the increase of the expected lifespan of the population
- the changes occurring in the pension system
- the lack of basic financial knowledge

The Hungarian National Bank tried to make a research in 2012, using the methodology of OECD. According to the main statements of this background material:

- less than two thirds are acquainted with the methodology of counting the interest rate
- the correlation between yield and risk is basically known
- there is a serious lack of knowledge in financial foundations

2. Methodological background and the sample

The basic of this article is a quantitative research from 2015, on the scores of a written survey. The research was made with the help of a pre-tested, standardised questionnaire. In order to get homogen answers, easy to evaluate we only asked closed questions. . It did not contain open-ended questions, i.e. it only had closed questions where the interviewees could choose from answers defined by the researcher, for easier assessment. Furthermore, we also payed attention to not including questions that would have decreased or stopped the willingness to anwer and that they would not violate the right to anonimity. The questionnaires were answered electronically, so the anonymity of respondents could be preserved. The questionnaires were evaluated with the help of the software SPSS 19.0.

The composition of the tests is the following:

Table 1.: The composition of the sample

		Number of answers (pieces)	Rate of answers (%)
Gender	male	1340	50,1
	female	1335	49,9
Age	under 20 years	431	16,1
	between 20-25 years	1585	59,3
	between 26-40 years	362	13,5
	above 40 years	297	11,1
Education	primary	209	7,8
	secondary	1788	66,8
	tertiary	678	25,3
Number of persons in a family	one	98	3,7
	two	375	14,0
	three	652	24,4
	four	994	37,2
	five	399	14,9
	above five	157	5,9

Source: own compilation, 2015, N = 2675

3. Results

In order to learn which factors are connected by the respondents' thoughts and judgements we made a factor-analysys. The results of different tests were evaluated by statistical index-numbers [gross-variant value, factor-values of rotated factor-matrix's, Kaiser – Meyer - Olkin (KMO) test], and by technicality, as well. We also analysed which components bunch together stably –without depending on the number of factors- and which ones are moving according to the number of factors.

The final structure which was adequate according to both the statistical and professional aspects is the following:

Table 2: The value of the money's factors

Rotated factor matrix	1	2	3	4
The more money I have the happier I am.	0,721			
Money is important, because with its help I can buy things I need to be happy.	0,689			
Money is important for me because it helps me to achieve my goals.	0,688			
If I do not have money I am unhappy.	0,667			
Money makes me feel under cover.	0,627			
Money is a kind of worth.	0,502			
Money is less important than freetime.	0,363			
Money is important to make friendship with people I find sympathetic.		0,783		
More money more friends.		0,773		
If I have money I am more precious.		0,762		
I trust in the financial advertisments.		0,672		
Money is for buying things not to save it.			0,770	
I prefer spending my money instead of saving it.			0,723	
It is important to save money.			0,564	
Money worth more now, than in the future (savings)			0,528	
I do not trust banks, so I would not tie up my money.			0,381	
When the profit is higher, I am willing to take risks.			0,249	
I always trying to get an information, before making a financial decision.				0,667
Concerning financial decisions I try to rely on external advisors.				0,500
I always monitor my financies.				0,482
When I making a financial decision my parents' and close friends' proposals are the most important to me.				0,481
The money I have worked for, worth more for me.				0,434
I always arrange my financies in the same bank.				0,319
Money is important for me, because with it I can help and support other people.				0,310

Source: own compilation, 2015, N = 2675

On the basis of factor-analysys we differentiated four groups of factors, which are analysed in detail hereinafter:

1. Money as the value of tools.
2. The social values of money.
3. Money as short-termed target-value.
4. Money as traditional value.

In the **first group** we can find the factors and statements defining the value of money within the tools which can be achieved by money. In this group there are statements which mainly emphasize the goals, results and feelings what can be reached with the help of money. By this interpretation, money becomes valuable by the achievements and attainments what people's can make with the help of money. In this group money is a valuable tool what gives people security and happiness. That is why this factor-group is named "Money as the value of tools".

The **second unity** is formed by the statements which emphasize the collective joy achieved with the help of money and where the dominancy of social motivation predominated. It is a dimension where money represents the tool how to belong to a group, a community or a society, which can make and define friendships. That is why this factor-group is named "The social values of money".

The **third category** is formed by the statements which highlight the hedonistical value-dimension of money, so money is emphasized as a tool to realize short-term goals. The long-term deposit of money is definitely not usual in this category, since it is better to spend than to save money, as banks do not augment it. As a matter of curiosity, the statement, which is one of the basics of finance appears in this group. It states that the money of today is always better than the money of tomorrow. At this factor taking risk is present: for the sake of getting higher income in the future, taking risks is accepted. That is why this factor-group is named "Money as short-termed target-value."

The last unit –the fourth one- is formed by the statements where safety and the long-term role and value of money is in focus. Families' and parents' opinion appears as the former of activities here, so the role of traditional values received with the help of money dominates in this group. Furthermore, the alternative profit sacrificed for money, the invested work and the conscious management of money appear altogether, because the more an individual works for money, the better he will appreciate it. The question of taking social responsibility and the aspect of helping others succeed only in this factor-group. That is why this factor-group is named "Money as traditional value."

4. Summary

As it has been written above, acquiring financial culture, financial literacy and routine is becoming more and more important. In this accelerating, quickly digitalizing world, in which information is spreading very fast, we can not let ourselves to be „uninformated" concerning our everyday finances. From schools to workplaces there are several ways to acquire financial knowledge and routine. The acquired knowledge, the ideas about money are clearly systematized in our minds. Money is considered to be valuable socially, materially or we can think traditionally about money as well. Whatever we think of money or finance, it is sure that economy would die without them and everyday transactions would be paralyzed. We have to start learning how to operate with money from the earliest age, to obtain sufficent information and gain the needed skills in order to be successful in our everyday financial affairs.

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