

# Financial Socialization Theory and Financial Information Literacy

Subjects: **Business, Finance**

Contributor: Happiness Ozioma Obi-Anike , Ogohi Cross Daniel , Ifeoma Joanes Onodugo , Ikechukwu Joseph Attamah , Benedict Ogbemudia Imhanrenialena

Financial literacy entails possessing and applying financial management skills for efficient and effective financial resource management for individuals' well-being. While financial literacy is concerned with the possession of adequate financial management skills, financial information literacy entails seeking and possessing adequate knowledge of the existence of financial products and services through diverse information channels.

financial information literacy

financial innovations

strategic decision-making effectiveness

performance sustainability

skills

## 1. Financial Socialization Theory

Financial socialization theory is vital for understanding young adults' financial behavior [1]. Financial socialization theory suggests that relationships among individuals influence the financial information the individuals receive which in turn results in financial literacy among them. This explains why financial information literacy is regarded as a prerequisite for financial literacy among individuals [2]. It is argued that child-parent financial interactions influence the child's financial literacy level [3]. This is because, in a family, parents are the most influential source of knowledge regarding how personal finances are best managed [4]. The high financial status of parents was also found to influence their children's attainment of greater financial literacy levels [5]. It was reported that students who follow friends' financial advice achieve higher financial literacy rates than other students.

Family financial socialization encountered by children plays a crucial role in laying a solid foundation for their future financial outcomes [6][7]. For example, a study found that young adults learn more about financial matters from their parents and family members than they learn from financial education in high school and personal work experience combined [8]. Young adults and children learn financial management skills from their parents either by observing their parents' financial management behavior or by actively participating in some of their parents' financial transactions, or both [9]. The basic agents of financial socialization in society are peer groups, family, and media [10].

Financial socialization that takes place through formal sources, such as schools, and informal sources, such as family and peer groups, is a source of financial information literacy [8][11][12]. It is also documented in the literature that although parents and family members are vital in financial socialization, financial literacy programs and media are an inevitable part of the financial socialization processes [7]. Researchers argue in this current research that financial socialization which occurs through families, peer groups, and the media results in financial information literacy among agribusiness entrepreneurs in rural areas in Edo State, Nigeria. Researchers further argue that financial information literacy is significantly related to performance sustainability amid financial innovations in Nigeria.

## 2. Financial Information Literacy and Performance Sustainability

The financial viability of individuals, families, organizations, and national economies is a reflection of their financial literacy levels [13]. Financial information literacy is an integral part of information literacy [14]. Financial information literacy is referred to as an individual's attitude towards seeking, understanding, and applying financial products and services-related information that may help the individual to experience financial well-being [2]. Individuals who possess adequate financial information, such as the types of financial products and services and the conditionality for their accessibility, are regarded as having a greater financial information literacy rate [15]. The channels through which individuals can acquire financial information include newspapers, television, radio, the internet, and government publications. Therefore, financial information literacy is a prerequisite for financial literacy among individuals [2].

The cardinal objective of agribusiness entrepreneurs is to achieve greater performance [16][17]. Studies have argued that individuals who possess adequate financial information literacy are able to increase and sustain their firms' performance. Individuals with adequate financial awareness are capable of identifying the right investment decisions and achieving a higher performance [18]. In addition, adequate financial information literacy enables individuals to discover the available credit

facilities and access them to finance their business [16]. For example, it is argued that possessing the right financial knowledge enables individuals to access viable financial products and services and boost performance [19]. Similarly, adequate access to financial information literacy increases high savings skills [20][21] which can result in good credit ratings and access to credit to improve firms' performance. Financial information literacy enables individuals to discover better interest-yielding financial products and earn high interest rates on their savings [22]. Financial literacy information also enhances better risk management [23][24]. Individuals with high financial information literacy are able to have a superior retirement plan [25][26]. Studies also found that financial information literacy equips people to make profitable investment decisions in both the money market and the capital market [26][27]. Lack of adequate knowledge of financial matters can make individuals susceptible to accepting inferior interest rates which result in loan repayment defaults, negative credit ratings, and impediments to accessing credit facilities in the future, all of which pose a threat to performance [28][29].

### 3. Digital Infrastructure and Rural Dwellers' Access to Information

Digital literacy entails the ability to accurately identify, assess, and use ICT platforms [30]. The analog information model has given way to digital platforms such as smart televisions, radio, and smartphones [31]. People are able to connect to television and radio programs through smartphones anywhere with the availability of internet connectivity. Rural dwellers are more likely to dedicate more time to viewing online TV and radio programs than urban residents due to the unavailability of entertainment centers such as football stadiums, museums, cinemas, and theatres in rural areas [32]. With banking services being conducted online, geographical barriers are being eliminated in financial transactions [33], particularly in rural areas [34]. The increasing use of internet-based gadgets such as smartphones, mobile tablets, gaming devices, and smart televisions highlights the need for available and reliable internet connectivity [35].

Making digital infrastructure available in rural areas will enable digital information service providers to integrate rural dwellers into the new digital age [36]. Rural dwellers need competency in digital operations to be able to access information from the platform for improved rural economic activities [30][37]. A large digital infrastructure disparity exists between urban areas and rural areas in Nigeria [30][38]. Similarly, the skills and educational capabilities that drive access and usage of digital information are deficient in rural areas [37]. Another problem hindering rural dwellers' access to digital information services is the associated costs of these platforms [30][31][37]. Research indicates that adequate availability and accessibility of digital information services to rural dwellers are essential to a robust rural economy [30][38][39].

### 4. Strategic Decision-Making

Strategic decision-making capability is one of the critical factors that influence entrepreneurial profitability and overall performance [40] because the ability to take profitable risks, such as effective product invention and market innovation decisions, is linked to strategic decision-making [40][41]. To enhance decision-making capability, firms are expected to increase their awareness of developments in business environments [42]. It is documented in the literature that effective strategic decision-making capabilities include the ability to analyze, select, optimize, adapt, and update decisions [43]. Understanding the ever-changing trends in business environments enhances the effective strategic decision-making capabilities of firms [44]. This research concludes that to strengthen strategic decision-making capabilities, entrepreneurs must clearly understand and appreciate the influencing effects of these factors [45]. Knowledge management is also needed for effective strategic business decision-making processes among managers because valuable information is required in the decision-making process [41][46]. Demographic characteristics are said to be related to human capital, though with limited theoretical explanations [40], and this necessitates an understanding of how entrepreneurs' financial information literacy impacts effective strategic decision-making.

## References

1. Ullah, S.; Yusheng, K. Financial socialization, childhood experiences and financial well-being: The mediating role of locus of control. *Front. Psychol.* 2020, 11, 2162.
2. Liaqat, F.; Mahmood, K.; Ali, F.H. Demographic and socio-economic differences in financial information literacy among university students. *Inf. Dev.* 2020, 37, 376–388.
3. Te'eni-Harari, T. Financial literacy among children: The role of involvement in saving money. *Young Consum.* 2016, 17, 197–208.
4. Nidar, S.R.; Bestari, S. Personal financial literacy among university students: Case study at Padjadjaran University students, Bandung, Indonesia. *World J. Soc. Sci.* 2012, 2, 162–171.
5. Erner, C.; Goedde-Menke, M.; Oberste, M. Financial literacy of high school students: Evidence from Germany. *J. Econ. Educ.* 2016, 47, 95–105.

6. Deenanath, V.; Danes, S.M.; Jang, J. Purposive and unintentional family financial socialization, subjective financial knowledge, and financial behavior of high school students. *J. Financ. Couns. Plan.* 2019, 30, 83–96.
7. LeBaron, A.B.; Kelley, H.H. Financial socialization: A decade in review. *J. Fam. Econ. Issues* 2020, 42, 195–206.
8. Shim, S.; Xiao, J.J.; Barber, B.L.; Lyons, A.C. Pathways to life success: A conceptual model of financial well-being for young adults. *J. Appl. Dev. Psychol.* 2009, 30, 708–723.
9. Beutler, I.; Beutler, L.; McCoy, J. Money aspirations about living well: Middle school student perceptions. *Financ. Couns. Plan.* 2008, 19, 44–60.
10. Albeery, M.I.; Gharleghi, B. Determinants of the financial literacy among college students in Malaysia. *Int. J. Bus. Adm.* 2015, 6, 15–24.
11. Goldsmith and Goldsmith. The effect of investment education on gender differences in financial knowledge. *J. Pers. Financ.* 2006, 5, 55–69.
12. Lusardi, A.; Mitchell, O.S.; Curto, V. Financial literacy among the young. *J. Consum. Aff.* 2010, 44, 358–380.
13. Lusardi, A.; Mitchell, O.S. The economic importance of financial literacy: Theory and evidence. *J. Econ. Lit.* 2014, 52, 5–44.
14. Spirane, S.; Zorica, M.B.; Simoncic, G.S. Libraries and financial literacy: Perspectives from emerging markets. *J. Bus. Financ. Librariansh.* 2012, 17, 262–278.
15. Potnis, D.; Gala, B. Proposing “mobile, finance, and information” toolkit for financial inclusion of the poor in developing countries. In: Information in contemporary society. In Proceedings of the iConference 2019: Information in Contemporary Society, Washington, DC, USA, 31 March–3 April 2019; Springer: Cham, Switzerland, 2019; pp. 228–235. Available online: [https://link.springer.com/chapter/10.1007/978-3-030-15742-5\\_22](https://link.springer.com/chapter/10.1007/978-3-030-15742-5_22) (accessed on 21 February 2023).
16. Twumasi, M.A.; Jiang, Y.; Adhikari, S.; Adu Gyamfi, C.; Asare, I. Financial literacy and its determinants: The case of rural farm households in Ghana. *Agric. Financ. Rev.* 2022, 82, 641–656.
17. Safitri, K.A. An analysis of Indonesian farmer’s financial literacy. *Stud. Appl. Econ.* 2021, 39, 85–105.
18. Seraj, A.H.A.; Alzain, E.; Alshebami, A.S. The roles of financial literacy and overconfidence in investment decisions in Saudi Arabia. *Front. Psychol.* 2022, 13, 1005075.
19. Koomson, I.; Villano, R.A.; Hadley, D. Effect of financial inclusion on poverty and vulnerability to poverty: Evidence using a multidimensional measure of financial inclusion. *Soc. Indic. Res.* 2020, 149, 613–639.
20. Conrad, M.; Gamuchirai, M.; Pepukai, P.C.; Rumbidzai, M. Financial inclusion, nutrition and socio-economic status among rural households in Guruve and Mount Darwin districts, Zimbabwe. *J. Int. Dev.* 2020, 33, 86–108.
21. Olubanjo, M.A.; Olayinka, D.W. The relative impact of income and financial literacy on financial inclusion in Nigeria. *Int. Dev.* 2019, 31, 312–335.
22. Deufhard, F.; Georgarakos, D.; Inderst, R. Financial Literacy and Savings Account Returns; IMFS Working Paper Series No. 88; European Central Bank: Frankfurt, Germany, 2015.
23. Atkinson, A.; Messy, F.A. Measuring Financial Literacy: Results of the OECD/International Network on Financial Education (INFE) Pilot Study; OECD Working Papers on Finance, Insurance and Private Pensions, No. 15; OECD Publishing: Paris, UK, 2012; pp. 1–73.
24. Agarwalla, S.K.; Barua, S.K.; Jacob, J.; Varma, J.R. Financial Literacy among Working Young in Urban India; IIMA Working Paper No. 10-02; Indian Institute of Management Ahmedabad: Ahmedabad, India, 2013; pp. 1–27.
25. Lusardi, A.; Mitchell, O.S. Financial literacy and retirement planning in the United States. *J. Pension Econ. Financ.* 2011, 10, 509–525.
26. Bucher-Koenen, T.; Lusardi, A.; Alessie, R.J. How Financially Literate Are Women? An Overview and New Insights; GFLEC Working Paper No.1; National Bureau of Economic Research: Cambridge, MA, USA, 2016; pp. 1–37.

27. Klapper, L.F.; Lusardi, A.; Panos, A. Financial Literacy and the Financial Crisis; National Bureau of Economic Research (NBER) Working Paper Series; National Bureau of Economic Research (NBER): New York, NY, USA, 2012; p. 17930. Available online: <http://www.nber.org/papers/w17930> (accessed on 15 December 2022).

28. Klapper, L.; Lusardi, A. Financial literacy and financial resilience: Evidence from around the world. *Financ. Manag.* **2020**, *49*, 589–614.

29. Agarwalla, S.K.; Barua, S.K.; Jacob, J.; Varma, J.R. Financial literacy among working young in urban India. *World Dev.* **2015**, *67*, 101–109.

30. Ministry of Communications and Digital Economy. National Digital Economy Policy and Strategy (2020–2030) for a Digital Nigeria; Federal Ministry of Communications and Digital Economy: Abuja, Nigeria, 2020; pp. 1–41.

31. Townsend, L.; Sathiaseelan, A.; Fairhurst, G.; Wallace, C. Enhanced broadband access as a solution to the social and economic problems of the rural digital divide. *Local Econ.* **2013**, *28*, 580–595.

32. Commission for Rural Communities. Mind the Gap. Digital England—A Rural Perspective; Commission for Rural Communities: Gloucester, UK, 2009.

33. Boston Consulting Group. The Connected Kingdom. How the Internet Is Transforming the UK Economy. 2010. Available online: <http://www.bcg.com/documents/file62983.pdf> (accessed on 13 February 2023).

34. Royal Society of Edinburgh. Digital Scotland. Report. 2010. Available online: <http://www.royalsoced.org.uk/cms/files/advice-papers/inquiry/digitalscotland/Digital%20Scotland%20Report.pdf> (accessed on 13 February 2023).

35. Ofcom. Communications Market Report: UK. 2012. Available online: [https://www.ofcom.org.uk/\\_\\_data/assets/pdf\\_file/0013/20218/cmr\\_uk\\_2012.pdf](https://www.ofcom.org.uk/__data/assets/pdf_file/0013/20218/cmr_uk_2012.pdf) (accessed on 18 February 2023).

36. Beel, D.E.; Wallace, C.D.; Webster, G.; Nguyen, H.; Tait, E.; Macleod, M.; Mellish, C. Cultural resilience: The production of rural community heritage, digital archives and the role of volunteers. *J. Rural Stud.* **2017**, *54*, 459–468.

37. Salemink, K.; Strijker, D.; Bosworth, G. Rural development in the digital age: A systematic literature review on unequal ICT availability, adoption, and use in rural areas. *J. Rural Stud.* **2017**, *54*, 360–371.

38. Central Bank of Nigeria. The National Financial Inclusion Strategy. 2020. Available online: <https://www.cbn.gov.ng/Out/2020/CCD/2019%20Annual%20Report%20of%20the%20National%20Financial%20Inclusion%20Strategy%20Report.pdf> (accessed on 20 January 2023).

39. Veselovsky, M.Y.; Pogodina, T.V.; Ilyukhina, R.V.; Sigunova, T.A.; Kuzovleva, N.F. Financial and economic mechanisms of promoting innovative activity in the context of the digital economy formation. *Entrep. Sustain. Issues* **2018**, *5*, 672–681.

40. Feng, J.; Pan, Y.; Zhuang, W. Measuring the enterprise green innovation strategy decision-making quality: A moderating—Mediating model. *Front. Psychol.* **2022**, *13*, 915624.

41. Li, C.; Ashraf, S.F.; Shahzad, F.; Bashir, I.; Murad, M.; Syed, N.; Riaz, M. Influence of knowledge management practices on entrepreneurial and organizational performance: A mediated-moderation model. *Front. Psychol.* **2020**, *11*, 577106.

42. Hu, R.; Shahzad, F.; Abbas, A.; Xu, N. Empirical analysis of the impact of industrial internet development environment on open green innovation of manufacturing enterprises. *Front. Environ. Sci.* **2022**, *10*, 947675.

43. Schønning, A.; Walther, A.; Machold, S.; Huse, M. The effects of directors' exploratory, transformative and exploitative learning on boards' strategic involvement: An absorptive capacity perspective. *Eur. Manag. Rev.* **2019**, *16*, 683–698.

44. Bilancini, E.; Boncinelli, L.; Mattiassi, A. Assessing actual strategic behavior to construct a measure of strategic ability. *Front. Psychol.* **2019**, *9*, 2750.

45. Feng, J.; Han, P.; Zheng, W.; Kamran, A. Identifying the factors affecting strategic decision-making ability to boost the entrepreneurial performance: A hybrid structural equation modeling—Artificial neural network approach. *Front. Psychol.* **2022**, *13*, 1038604.

46. Melovic, B.; Dabic, M.; Vukcevic, M.; Cirovic, D.; Backovic, T. Strategic business decision making: The use and relevance of marketing metrics and knowledge management. *J. Knowl. Manag.* **2021**, *25*, 175–202.

---

Retrieved from <https://encyclopedia.pub/entry/history/show/131881>