"Putting the horse before the cart:
Factors that influence financial capability
and effectiveness"

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Abstract

Financial Literacy is recognised as an important public policy issue in Australia, and a number of programs and resources exist, and are being developed with the aim of assisting individuals, to become more financially literate. This study seeks to contribute to the understanding of the underlying determinants of financial capability by exploring the factors that influence financial capability. Three focus groups were conducted with financial counselors in Queensland to explore the factors that inhibit and promote financial capability.

In addition to skills and knowledge, the study found that financial counselors view confidence, self-esteem and self-belief as important determinants of financial capability, and that gender and family socio economic status also influence an individual’s ability to engage in financially effective behaviour. While budgeting was seen as an important process in developing financial capability, its function was seen as a reality check for those who had inflated concepts of purchasing power of their income and had also underestimated expenses. The results also found that present, rather than future orientation, were found to be a key inhibitor of financial effectiveness. In addition attitude to risk, security of relationship, employment and housing, were listed as key determinants of the ability to be financially effective.

This paper concludes by advocating for an increased emphasis on attitudinal change, capacity building and mentoring programs in the development and delivery of financial literacy programs and resources.

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Introduction
Since financial services deregulation in 1985, the financial services landscape continues to evolve, and there have been fundamental changes in the way that consumers are now asked to interact with financial service providers and with money itself. Increased marketing, access to credit, accelerating technological change, and a greater variety of investment and other financial products have made the process of personal financial decision making more complex. At the institutional level, prudential and functional regulation of the financial services sector through the Financial Services Reform Act (Commonwealth of Australia 2002) has addressed the need for clearly communicated product and fees disclosure by financial service providers. While the Financial Services Reform Act (Commonwealth of Australia 2002) has enhanced disclosure, it is not necessarily the case that consumers have the ability, or appreciate the need to fully understand and utilise this information in the financial decisions that they make.

In this environment, consumers are also increasingly expected to take responsibility for their personal finances, accumulation of assets, debt management and long term planning to fund their retirement. This fundamental change in the way people are expected to interact with financial services has heightened the requirement for a knowledge and skill base that will enable consumers to make effective personal financial decisions (National Association of Citizens Advice 2001)

To enable effective consumer decision making in regard to investments, money management and debt, a degree of financial literacy is required. There are a number of terms that are used in place of financial literacy; these include financial knowledge, financial education, economic education, economic literacy, financial management, money management and financial capability (Social and Enterprise Development Innovations 2004). Of these, the most widely used terms are financial literacy and financial capability.

Financial literacy can be viewed as a process leading to the outcome of more informed consumers making effective financial decisions. This inclusion of process and outcomes in the definition, according to Mason (2000), gives literacy importance. In order to be financially literate, a number of skills including analysis, planning, and communication are required in addition to a sound knowledge base. Personal financial literacy requires more than a set of knowledge, and accordingly Mason (2000) defines financial literacy as ‘an individual’s ability to obtain, understand and evaluate the relevant information necessary to make decision with an awareness of the likely consequences’. (p31)

This definition also recognises that the ‘relevant information’ is not necessarily always financial information, and that a core skill is the ability to obtain that information. A rapidly changing financial environment, combined with changing information and skill needs as consumers enter new life stages, indicates that financial literacy cannot be viewed as a static state and that some skills are also required in negotiating and adapting to change (Correia 2002). Indeed a lifelong approach to learning is required to maintain skills and knowledge in a changing environment.

Financial literacy has been criticised as a term because it is seen by some authors to be limited to definitions and activities that focus on a need for specific knowledge, such as budgeting and money management (Hogarth 2002). The term, financial capability, is preferable to financial literacy, according to Social and
Enterprise Development Innovations (2004), because it offers some advantages in that it includes the notion of responsibility and informed behaviour. In addition, it is focused on lifelong learning that is appropriate for all people, not only those who are seen as the most disadvantaged in terms of education, income and socio-economic status (National Association of Citizens Advice 2001). The term ‘financial capability’ is widely used in the U.K. and Canada as an alternative to financial literacy, and will be used in the remainder of this paper.

**Background and Research Question**

Undoubtedly financial capability has captured Government and policy makers’ attention, however, to date this has been a relatively under-researched area. While the current definitions of financial capability and measurements of financial capability have provided a good base from which to develop programs and resources, they do not provide a comprehensive understanding of the underlying skills, attributes and behaviours associated with financial capability. Financial capability is multi-dimensional and it is influenced by a range of factors, and while there has been some development of frameworks and benchmarks (Basic Skills Agency 2004; Personal Finance Research Centre 2005), little is understood about the actual components and drivers of financial capability in an Australian context.

Defining the components of financial capability is a necessary step in the process of developing effective policy and programs that will address not only the knowledge gap but also have a greater likelihood of changing consumer behaviour (Consumer and Financial Literacy Taskforce 2004). The Consumer and Financial Literacy Taskforce (2004) recognized that financial decisions do not occur in a vacuum, and that they are influenced by a number of factors, including macroeconomic factors, socio-economic and demographic factors, personal characteristics, needs and aspirations, life events, consumer skills and access to information. They propose a consumer behavior model that incorporates and recognises the influence of these factors on consumer behaviour, and that this model should shape policy and program delivery. A clear understanding of these factors will also assist in the design of measures to assess financial capability.

Two recent studies have contributed to the literature by developing an understanding of financial capability. Both of these studies have used focus groups to explore the factors that influence financial capability. Focus groups were used as field research to assist in the development of a measure of financial capability in a study by The Personal Finance Research Centre (2005) in the UK. This study found that four factors were integral to financial capability, including managing money, planning ahead, making choices and getting help. Each of these factors was further defined by specific behaviour, however the report acknowledged that differences in income affect what is considered financially capable behaviour. A recent study by AC Nielsen & ANZ (2005) in Australia used focus groups and interviews with people who had experienced financial difficulties to develop a framework for understanding the influencing factors on financial difficulty, the moderating factors and those factors which predispose a person to the potential to become financially distressed.

While both of these studies have developed the understanding of financial capability and one has also informed the development of measurement tools, there is nonetheless a limited understanding of the factors...
that influence the adoption of financially capable behaviours. Both of these studies found that numerous factors impacted on financial capability and distress, amongst which are attitudinal, social, structural, skills and knowledge factors. Financial behaviour is complex and in order to develop effective measures of financial capability and programs and interventions that will contribute to the development of financial capability, further research is necessary.

It is argued that financial capability programs will be enhanced if they are to include modules that are designed to change attitudes and behaviour as well as increase knowledge and skills (Wiener 2004). One of the most widely researched and utilised theories of attitude and behaviour is the Theory of Planned Behaviour (TpB) (Ajzen 2005a). The TpB is an extension of an earlier theory, the Theory of Reasoned Action (TRA) that was developed during the 1970’s by Fishbein and Ajzen. The TRA is based on the notion that performance of behaviour is immediately preceded by the intention to perform the behaviour and that intention is formed by attitudes to the behaviour and subjective norm. Attitude to the behaviour and subjective norm are formed by beliefs about the behaviour and personal normative beliefs (Ajzen 2005b), and these are constructed from a number of influencing background factors, including Socio-economic, age, gender, experience, and education. The TpB extended the TRA in that it included a measure of control beliefs and perceived behavioural control along with normative beliefs and behavioural beliefs that were already included in the TRA (Armitage 2001). This inclusion was seen as having the potential to better explain intention, and has been found to provide greater explanatory power to the model in many studies (Armitage 2001). Other factors may also influence intention and behaviour, in a study of share purchase East (East 1993) found that prior experience or past behaviour added to the explanatory power of the TpB model.

Measures to determine the level of financial literacy and capability (Roy Morgan Research 2003; Personal Finance Research Centre 2005), along with the recent development of a scale to estimate the degree of financial distress and well-being (Prawitz 2006) continue to add to the knowledge base for this important area. A key question that will also add to our understanding of financial capability is what are the factors that facilitate and impede the development of financial capability, and which of these factors impact on the development of intention to engage in financially effective behaviours. This knowledge can then inform the development of future programs and interventions. To a large extent, programs and interventions are being developed with the best of intentions but with insufficient rigorous research to inform the design of such program. A first step must then be to understand the impact of these factors on the formation of intention and then the influence of intention on behaviour. This research attempts to make a small contribution to this, by exploring the factors that facilitate and impede financial capability.

The research reported in this paper is part of a larger study that seeks to develop a model of financial capability based on the theory of planned behaviour, and other factors that may have the capacity to increase the explanatory power of theory. From this it is planned that a measure of financial capability will be developed and tested. The first stage of the research addresses the question of what are the factors that facilitate and inhibit financial capability and effectiveness, and seeks to identify these through the conduct of focus groups with financial counselors, financial planners, younger people, women and general population. This paper presents the results from focus groups that were conducted with financial counselors in Queensland.
Methodology

In the context of this research, focus groups were chosen as an appropriate research method as they can stimulate expression of ideas and opinions from discussion within the group. This interaction provides a potentially richer source of data than might otherwise occur from individual or group interviews, where participants respond to the researcher rather than to the dynamics and interaction of the group itself. Financial counselors were chosen as they are in contact with clients in financial distress on a daily basis and they also deliver community based financial literacy education to groups. All financial counselors in South East Queensland and in the Wide Bay region were invited to participate in a focus group. In all, 18 financial counselors (5 men and 13 women) participated in the focus groups, which were held in Brisbane (2 groups, 7 and 4 participants) and in Hervey Bay (1 group, 7 participants) over a six-week period in 2006. Participants also completed a brief demographic questionnaire to identify income, education, and age.

The focus groups were conducted using a standardised approach, and a discussion guide was developed to stimulate the discussion and allow for probing where necessary. The focus groups were recorded electronically and transcribed before being analysed using Nvivo, with the document totaling over 35,000 words. Coding was developed through a line-by-line examination of the text and this coding was refined to identify 30 concepts and five categories.

Results and discussion

This section presents results from the focus groups organized around the categories in the TpB, namely: background, attitude, normative influences, and perceived behavioural control. In addition, another category, ‘Skills and Knowledge’ is included in this descriptive framework. Within each of these categories a number of factors were identified in the focus groups, and these are illustrated with participants responses in the discussions. The results are summarized under categories, as some factors were identified as having the potential to facilitate and to impede financial capability. Table 1 organises these factors around the categories and according to whether the factor promotes or inhibits financial capability.
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Background factors:

Family upbringing and childhood experiences

Family upbringing and childhood experiences can influence decisions, access to resources, skills, social expectation and confidence. Participants commented that this had the potential to either positively or negatively affect financial capability. For some, financial difficulties and experience of poor decisions within the family provided a motivating factor to make distinctly different financially related decisions:

‘I grew up so poor it was unbelievable, so I knew that men really didn’t make very good decisions, I mean I don’t think dad made a good decision, maybe marrying mum that would have been the only good decision he made in his life. So I knew that you really didn’t leave things up to men to make decisions.’ Female, FV1

Learning behaviours within the family environment was seen as influential on future behaviour. In particular, having a parent who was an effective financial manager was seen to have a positive influence on not only skill development but also on behaviour.

‘She was a really good money manager because her mother was a very good money manager so she had been taught a lot of the principles and that from such an early age cause she had seen her mum have to budget and things like that so she’d, that had been instilled in her from a very early age so she was exceptionally good.’ Female, FV2

‘My mother was the financial manager in our household if you like and she did an extremely good job, I mean I come from very, very humble beginnings …it was a tough road for them and I think I grew up in that environment and … I would like to think that I’ve been a reasonable money manager myself over the years’ Male, FV2

‘You know - the value of the home in which you were brought up. As little kids we absorb it like sponges, we can’t really discriminate but the home I was brought up in being financially secure was a very highly valued aspiration, so it was something that I simply inherited without thinking too much about it. I thought that’s what most sensible people did without questioning it.’ Female, HB

The connection with early experience and parental modeling and the financial decisions and behaviour of adult children was not seen as predictable or straightforward, with some participants reflecting on different attitudes and behaviours of siblings and how children can make decisions that are quite different to the ones that their parents made, as a re-action to their upbringing.

‘I think that growing up with a family that ah looked after money, you may not necessarily pick up that skill, you may not want to pick up that skill. Ah two or three children in a family may turn out completely different, even though their mother and father did the same with the three of them.’ Female FV2.
Security

Security of employment, location and relationships was an important factor that was seen to promote financial capability, while insecurity of these factors was detrimental to the development and maintenance of financial capability. This was related to having sufficient income to provide for basic needs, but also connected with emotional and mental health factors. In addition fulfillment of these fundamental needs were an influencing factor on the level of security a person felt, their attitude to risk and their self esteem.

'I guess part of our lack of confidence was that I was sort of in and out of work because every time we moved I would have to wait until I could get another teaching position or some part time teaching or something like that and when the children were small it was very awkward to have, for me to teach full time because of the difficulties with finding someone to mind the children and things like that.' Female, FV1

'The fear of rejection and the security thing comes up again and there is that longing for connection.' HB

Life changing events

Life changing events, while creating problems, also created opportunities for people to make different choices about their financial future and behaviour. It was seen as an opportunity for change. Most life changing events that participants referred to were associated with interpersonal relationships, and included widowhood, divorce, marriage and having a family.

'Leaving my husband was a pretty good financial decision, the mortgage was maxed and the credit cards were maxed and the personal loan was maxed and it was only after I separated and had control of the finances that things started to go back in the black instead of being in the red.' Female, FV2

Some other behaviour that changed alongside the life-changing event were buying a home to ensure more security, and resisting family demands for assistance.

'Having two incomes you didn’t notice as much so you don’t mind handing it over but now I’m back to one income. …They were really funny about that because you know it was like you know you have got some money so lets all have a holiday mum and I said no I want to have something, like I didn’t go through all this marriage and come out with nothing and I mean I am not getting any younger and I’ve got to - I just like the security of having my own place and that so they were really funny about that, one wanted some money for a car and one wanted me to help pay off some debt and I just said no this is what I have targeted my money for.' Female, FV2

Income

Insufficient income was regarded as a major impediment to developing financial capability. The difficulties that people who receive Centrelink benefits and are in casual and poorly paid employment face, particularly when they have debt repayments in addition to general living expenses, impact on self esteem, self belief, and seem insurmountable. Many people in this situation may in fact be financially capable within their resources, and be making the most efficient decisions regarding spending and credit use.
‘You can’t pay rent and you cannot possibly have a car and put petrol in it and buy food’ Female, FV1

‘They’re probably single parents trying to raise two or three kids with no maintenance or very minimal maintenance.’ Male, FV2

‘You look at what you were earning and what you needed to just survive you think well, I really was actually a incredibly good financial manager at the time with what I had, which wasn’t enough and I should have been patting myself on the back and the fact that I had a credit card maxed is what it took.’ Female, FV2

Likewise, being able to manage and not use credit is more likely when income is sufficient.

‘Now that I’m older and my kids are older and I think oh I’m a clever dick I can keep my credit card at zero and look I can have a little savings plan and stick at it, wow haven’t I improved, and then I think no I have really improved, I’m fooling myself, it is really that I don’t have the cost demands and I have higher income than what I used to have’ Female, FV2

Lack of income and poverty along with the desire to escape from difficulties is a factor that may increase the propensity to spend on smaller items, and decrease the ability to escape the lure of shopping centers.

‘The poorer you are, the more attractive all those bright lights are …when you’re lino at home is 50 years old and all torn and in bits and your kitchen cupboard doors are hanging off and you have crappy bits of peeling Formica and crappy old furniture, you just want to get out of your house, you get out of your house and you go to the shops and you look at all of these little things, what can you possibly afford, the little things that you can afford like a scatter rug or a vitamiser or something and you think well if I only had that then things would be okay, then my house would feel would feel like a home, then the kitchen wouldn’t look so disgusting and so you are trying to sort of Band-Aid your life and I guess because money is worrying you so much it is affecting emotionally and sort of possessing you and it makes you thrive for shopping more.’ Female, FV2

**Gender**

Women are particularly vulnerable and suffer financially and emotionally when they are in relationships where money is used as a mechanism for control, or where they must share their meager financial resources in order to secure the relationship.

Oh he just dominated her completely, she just, she wouldn’t even hear, I’ll give him what he wanted.’ Male, HB

‘I did meet someone at one stage and I felt oh this is it this is going really well until one day there was a peculiar question asked of, if I remarried again would I put everything in joint names and I still could never ever work out how the lie rolled off my tongue and I said oh everything is in trust for the kids {LAUGHTER} and he disappeared within a few weeks.’ Female, FV1
In particular, single female parents who are in receipt of one off payments such as the baby bonus are vulnerable to exploitation. The male partner feels he has some rights over the distribution of this resource, due to his involvement in the conception.

‘I had a girl in there who was having another child and she was supposedly a sole parent but she wasn’t of course she had a bloke tied up with her, she said when she got her baby payment, it was due in the next month, she had to give half of it to this bloke because he needed to do something with his car, and I said he is not entitled to that money he does not deserve that money why, I just have to give it to him, I just can’t say no...’ HB

‘Oh this blokes reason was that he was responsible for her having the baby so he was entitled to half of the payment.’ Male HB

Women are vulnerable to exploitation within the relationship, and even if they are good managers within their income, they are at risk of falling into debt if they allow the partner to access their accounts or take responsibility for loans for him.

‘But it’s also they get a guy and they invest so much trust in the guy because they really want this to work, you know they have very romantic ideas about relationships and they invest just so much trust in the guy, it goes well for a little while then they break up, the number of times the guy, and he’s got her pin number and he goes to the bank and completely clears the account, so she’s got nothing for the rent, nothing for the electricity no food for the baby, nothing and that happens again and again and again.’ Male HB

Health

Background factors related to physical and mental health and addictions impacted on the ability to effectively manage their personal finances. Ability to earn income, the cost of health care, carer stress, and the effect of living stressful lives compound existing problems of poor physical and mental health.

‘They’ve got children and you have got to look at the factors of whether or not the children are ill, particularly up there seems to be a lot of ADHD so there is medication being paid, um a lot of them when they come across have a lot of either the parent has the mental illness or the child has a mental illness, there are a lot of things that stop them from getting ahead.’ Female FV1

Depression and mental health issues related to work life balance increase the propensity to spend money to provide temporary relief from these issues.

‘If she is depressed she will go and spend more.’ Male FV2

‘Someone who is highly stressed, over worked um it’s very emotionally vulnerable and that’s exactly the profile of person who to keep themselves mentally stable will absolutely need to go and have the facial or the cup of coffee or the whatever, just to get them through …to the next week.’ Female FV2
Spending on addictions, and associated effects of addictions affect the ability to change, and impede efforts to change financial behaviour.

"I think one of the biggest inhibitors to change is how long they have been smoking marijuana." Female HB

"I have had clients who have been going to see addiction counselors and getting to a point where things are starting to ease up and the moment that, that happens back into doing the old behaviour." Female FV2

**Access to credit**

Change in access to credit was seen as a problem, particularly for those who use credit to buy household items and to supplement income for everyday expenses. In particular, the marketing of credit and lending criteria of financial institutions were seen to compound financial problems.

"Anyone could walk in and get money nowadays it is so available so it’s the lending institutes." Male, HB

"It is far too easy, even some of the housing loans these low doc loans for argument sake all that really means is well, you know that’s nonsense as far as I’m concerned." Male FV2

"There is an expectation on everywhere you go, where’s your credit card, I don’t use one, oh there is something wrong with you then." Male, HB

"He always sort of keeps going and getting another credit card and topping that up." Female FV2

"They are always chasing that “no interest, no repayments” for 12 months or 24 months." Male HB
Attitudes/ Entitlement

An attitude that they are entitled, and that others are responsible to provide for material goods and experiences in addition to basic necessities of living does not contribute to the development of financial capability. An example of this is the provision of Centrelink benefits directly to the child once he or she turns 16. The child sees this money as disposable income, and there is a belief that they are entitled to spend this money in any way they wish, with no responsibility to provide for their living expenses.

‘There is also an issue with say Centrelink benefits and things like that, that I have noticed time and time again, when the child hits 16 and they are entitled to Youth Allowance that that’s the kids money to spend, even though mum is struggling along on sole parent pension and trying to support that child and all of the other kids with less money, the kid is not willing to hand the money over or there is not something in there that says hey this is to support you, this is pocket money, and it’s mine and I’m going to spend it and it is causing more hardship for the family.’ FV1

There was a view that some people believe that they are entitled to items that are not generally affordable within the amount that is provided as a benefit from Centrelink. These items were seen to be normal entitlements, as shelter and food is.

But it is also coming back to this expectation of entitlement, the young person on $430 from Newstart, He believes, or she believes I must have a car, I’m entitled to have a car I can’t have any sort of life without a car I can’t get a girlfriend without a car, or whatever.’ HB

Allied with the sense of entitlement was an attitude of shifting responsibility and avoiding work.

‘If they can avoid doing work they will, if they can shift it on to someone else they will and I don’t know whether it comes from the feeling of entitlement, that I am entitled to live a life of ease or what it comes from but I really do think that the belief system about entitlement plays a lot in all of this’ HB

Spending as reward or to compensate for deprivation

Living with financial stress and the accompanying need to not spend on essential items in order to pay bills contributes to a desire to spend more when money becomes more available. This reward as compensation then leads to further financial stress, and so continues the cycle.
'When a bill then does arrive it actually then takes away from the whole of their lifestyle so they compensate by buying themselves more when the next pay packet comes in and if they have got two or three bills on top of one another they are absolutely history' Male, FV1

In addition, stress associated with working is seen as a reason for spending to alleviate those feelings, however this spending is not affordable for those on a median wage.

‘You could be working just as hard to earn 40 as you are to earn 70 and most people are tight and they do deserve rewards but you actually can’t afford the rewards they are giving themselves all the time’ Female, FV1

Ongoing poverty and deprivation is an influencing factor on the desire to spend, with more difficulty in control over spending experienced when money is less available. In contrast, financial stability and greater access to money is a moderator on the desire to spend.

‘I think that when I was very, very poor and much shorter of money I had so much more urge to go and spend, which was a lot harder to control and I had to really work to control it and I think it was and emotional need looking back on it and the more financially stable I am I have no trouble at all now. I am flat out talking myself into spending $3 on a coffee if I go into a Westfield shopping centre. I just don’t feel the need to spend like I used to, I know it’s tied to your emotional state and your feeling of yourself and your needs in life so yeah it’s just a lot harder for people I think, than for better off people. What you can’t have, it’s like being hungry and being in a food shop, it really makes you want to eat doesn’t it.’ Female, FV2

Materialism
For some, a measure of success is the appearance of wealth and the accumulation of material goods rather than assets. This attitude is linked to social expectation.

‘She is just one of those that has to have everything that the latest gadget that comes out, so she doesn’t care, like she will even go without food to have this latest gadget to say oh look at my pink phone or whatever you know.’ Female, FV2

‘She is very materialistic so she sort of wants everything’. Female, FV2

‘People who have the perception of being extremely wealthy really a lot of them, really are just flying by the seat of their pants’ Male, FV2
Living within your means

Comparisons were drawn between people who manage effectively on small incomes and those who cannot manage on greater incomes, in particular people who live within their means were described as having different values, being frugal and making effective decisions about wants and needs. Adopting attitudes that led to people living within their means is core to financial capability.

’Some of these older people who are now in the retirement age (unlike B) who may have just worked at what we would probably call a menial job, but they have been there for 30 years on the council and when they retire they are well able to live within their small pension that they receive.’ Male HB

‘When I look at a person who I think is handling their financial situation I usually sort of look at it in the category, it is an old saying about don’t live beyond your means.’ HB

‘They have probably got a different set of values to, to people that think they have got to have these things, that those other people would think would be frills that they can do without, when they have to in life, and where the others have got to have them now, regardless of whether they can afford them or not. They think it is essential to have something that is really is a non essential really.’ HB

‘They’re both working, they are both earning incomes so they have got to learn to live within their means.’ Female, FV

Risk

In the focus groups participants responded to discussion related to investment decisions and financial effectiveness with comments and reflections on attitude to risk as an influencing factor, and some felt that an overly cautious approach to opportunities that they had impedes their financial capability and effectiveness. This was a limiting factor on their accumulation of wealth, and there was regret associated with the memory of past inaction for what would have been profitable investment opportunities. In addition, financially effective people were described as those who recognize opportunities and willingly take on risk.

‘Working in the Financial Counseling industry I’d seen a great many bankruptcies and it took quite a number of years to realise that that was having quite an impact on my making decisions on financial future, if it wasn’t 100% or 90% secure I didn’t sort of want to jump into it and it is only just recently that I have started to dabble again.’ Female, FV2

‘The only thing that stopped us from going ahead with that was our traditional value of always being secure and never taking a high risk and never stepping out on the water.’ Male HB
Change

Desire for change is integral to change in behaviour, this desire can begin with dissatisfaction with the current situation, and that the only way things can change is if they take action. Concern and worry provide motivation for change. Financial counselors saw that clients with high levels of anxiety about their situation were more likely to have a sufficiently strong desire to change and therefore were more likely to accept assistance and move towards financial capability.

‘They want something to change and hopefully the light might dawn that it is they themselves that has to change not just oh somehow miraculously there is going to be more money in the budget for the unemployed, you know.’ HB

The realisation that the way they are living their life is not bringing them what they want out of life. The willingness to accept the concept that something about them has to change.’ HB

‘I think people have to want it, have to want to change for a start, that they actually get to the stage where you know only I can do something about this,’ Female, FV2

‘They won’t have the motivation to change unless there is something making them feel uncomfortable at the moment and the best uncomfortable is the knot in your gut, it’s the worry it’s the not sleeping at night.’ Female, FV2

‘I suppose it is a bit like gambling and alcohol and so forth I mean you can’t really address the issue until you actually admit that there’s a problem and when you get to that stage of admitting, well I do have a problem, then you can start moving forward from that point.’ Female, FV2

Focus

Focus only on the present is a major impediment to financial capability, with short term needs being met at the expense of medium and long term needs. This attitude of living for today and not worrying about the future compounds existing problems and does not provide a sound basis for financial management. Alternatively those who focus on the future, set goals and plan are more likely to be financially effective.

‘They didn’t really plan for the future it was just getting from day to day and surviving, so for me I didn’t have any of this, this is how you should plan for the future.’ Female, FV1

‘There is no planning, it is living from week to week, the money that comes in there is nothing set aside for bills that are intermittent, their registration is not pre planned, their electricity is not pre planned it is, that is the amount of money we’ve got and subsequently when a bill then does arrive it actually then takes away from the whole of their lifestyle.’ Female, FV1

‘People who live from fortnight, well they get paid fortnightly but they live from week to week, cause it only lasts a week.’ Male, HB
‘The younger one who hasn’t got too much money tends to live for the day and will worry about tomorrow, tomorrow sort of thing you know and he has had 2 or 3 overseas trips, he’s overseas at the moment and he is not too concerned about what the future might hold at this stage, sort of kay sara sara to some extent.’ Male, FV2

‘I keep saying to her S, you know like, what happens if you know, something happens down the track or whatever, and she’s oh you only live once, that’s her attitude, live for the moment.’ Female, FV2

Attitude to money
Concern about money is a requirement for change and for financial capability. Those that express that they are not concerned or don’t care about money are unlikely to be able to change their actions. However, this ‘unconcern’ is seen to be more of a shield behind which the person has ambivalent feelings about their relationship to money.

‘If they’re the person that comes in and says I don’t care about money I’m not worried, nothing’s going to happen.’ Female, FV2

‘I think they care about spending money you can see that, if they really didn’t care about money they wouldn’t have as big debt’s on their credit cards so um it is a funny sort of ambivalence saying you don’t care about it but actually being the person who’s at the shops all the time or at wherever, clubs or wherever spending it.’ Female, FV2

‘I’ve never been a money person, no I’m not a paper person, no I’m not interested in doing a budget”, it’s that sort of I don’t care about it thing, but yes they’re the same sort of clients, when they are hitting 40 will be back in tears in your office saying well I was never materialistic but now I haven’t got anything and I’m feeling depressed about it, so it’s that, suppose different life stages things but I have also had older people say that to me too.’ Female, FV2
**Norms**

*Influence of partner, family and friends*

Family, friends and partners can assist the development of financial capability in that they have complimentary skills, allow learning from each other and work together towards their goals. To some extent the decision to commit to a relationship is influenced by the financial capability of the potential partner, in addition to love.

‘I actually looked for a partner, I mean I think the world of my husband, I love him to death but I actually looked for a partner that had certain aspects in him, it was a simple as that and that is what I would go out with, I wouldn’t go out with someone who was dead broke, everything, every different aspect of the way he looked at life, the way he managed his money, his courtesy towards me, I just looked at, I mean I had grown up with a chap, with a husband {LAUGHTER} the chemistry was there, I mean he is just absolutely fantastic, I mean I have been married 32 years.’ Female, FV1

‘Working together, if it is going to be a couple it has to be able to work together.’ Female, FV1

‘Yes, I’m sort of prepared to take more risks and he sort of gently comes behind, he does all the checking, background work to make sure it’s alright.’ Female, HB

‘It doesn’t matter how good a planner the person is, if the other party then married, defacto or whatever um you know it just doesn’t work, it has to be, if there is a couple it has to be the couple working together.’ Female, FV1

In vulnerable relationships, decisions to commit to a partner are influenced by romantic notions with pragmatic considerations having less importance. This influence works against the development of financial capability and entrenches the person in financial distress.

‘They invest so much trust in the guy because they really want this to work, you know they have very romantic ideas about relationships and they invest just so much trust in the guy, it goes well for a little while then they break up, the number of times the guy, and he’s got her pin number and he goes to the bank and completely clears the account, so she’s got nothing for the rent, nothing for the electricity no food for the baby, nothing and that happens again and again and again’ HB

‘I think it is vulnerability right across the board, but that seems to be what it is that other people restrict them from controlling their own destiny.’ Male, HB

Where partners have different values, attitudes and upbringing about money then it is likely that there will be conflict over financial decisions, and the benefits of working effectively together as a couple will be lost.

‘My family got involved a little bit, my mum and dad never really interfered in my life but I remember my father saying I’ll help you out if you need to do it and my partner at the time, my husband at the time had an
argument that if we did it we did it under our own steam, and of course it didn’t happen so yeah.’ Female, FV2

‘There are so many people that, one person wants to do the right thing but the partner goes against that and this won’t be working at all and it all breaks down, I think that couples should definitely work together.’ HB

Friends, as well as partners and family also influence financial decisions and actions.

And their friends as well, it’s a peer thing it what their friends are all doing, and it’s who they compare themselves with. HB

Social expectations
Related to the attitude of entitlement is the normative influence of social expectations of what is an acceptable consumption. Expectations of new furniture and large homes, cars, and mobile phones were examples given to support the idea of a sense of entitlement. This was in contrast to personal experience of participants of when they were young and establishing their first home.

‘I think it is social expectations too, I think people um you know it is such an instant gratification the world we live in where everything is on credit and the more that that snowballs the more that other people feel, and I have clients say my friends have this and they must be earning similar to what we are so I think there is pressure to keep up with the Jones’ but more so now because people are living beyond their means’ Female, FV1

‘He believes, or she believes I must have a car, I’m entitled to have a car I can’t have any sort of life without a car I can’t get a girlfriend without a car, or whatever.’ Male, HB

‘I know when I started out when I first got married, a starter home, we all started with what we call a starter home which is just a little place, the best you could afford, a starter home now is 4 bedroom with an ensuite, double garage and a pool, they start at the top now.’ Male, HB

‘And the pressure on people, you know young ones are expected to have a nice home and a new four wheel drive, there wasn’t that expectation on us when we were young.’ Female, HB
Presence of a mentor

Having the support and encouragement of a mentor assists in the development of financially effective behaviours. It is not imperative that this person is a family member, nor that this mentorship is established at an early age, however those that have access to such a person are at an advantage. Financial counselors and volunteers in community organizations can play an important role in developing the motivation and assisting the person to recognize opportunities so that they are able to become more financially effective.

‘So it’s so good to have someone to come along and encourage you and give you opportunities.’ Male, HB1

‘Well they have got to have encouragement or support from family or someone outside, friends or whatever or counselors and that can help them along’ HB

Mentors can act as a sounding board for financial decisions. Those that do not have access to such a person find it difficult to talk about financial decisions and money issues, and are not provided with encouragement to maintain motivation. This impedes the development of financial capability.

‘He sort of, would pick up the phone and ring me and say hey dad what do you think about this what do you think about that.’ Male, FV2

‘His function was to talk me out of it and to throw the idea around with me, you know that’s what I rang him for, he was my financial stability and he still is.’ Female, FV2

‘Getting people to talk about money, because if they don’t talk about money, how many times do you have clients that say, you say who do you have to talk about money.’ Female, FV2

‘They have got no one giving them something to think about, should I buy that or shouldn’t I buy that, like you do with your dad you know.’ Female, FV2

‘It’s having someone, whether it be through family or friends or whatever but just having someone - keep yourself connected as much as you can to positiveness around you and stuff like that.’ Female, FV2
Perceived Behavioural Control

**Self-confidence/esteem**
Self-confidence is central to financial capability, and in particular any attempt at change need to have a belief in self and confidence. Family upbringing, vulnerable relationships and poverty work against the development and maintenance of self-confidence and esteem.

’If you grow up and are told that you will never be nothing and never amount to anything it is very hard if you are sitting in that situation, to believe in yourself.’ HB

’They have to have self worth, they have to believe in themselves, and otherwise you can't make a decision at all.’ Female, FV1

Poverty, and messages that reinforce that you are an ineffective money manager work against the maintenance of self-confidence and esteem, and as such further compound difficult financial circumstances by making change more difficult to achieve.

’I actually think it gets back to your self esteem too because at the time when you’re dirt poor and everything is crappy around you, you sort of feel when like you're obviously a hopeless money manager.’ Female, FV2

’I think it was Noel Whittaker that said in that book, controlling credit cards, if you're a good financial manager you should be able to pay off all your credit cards from one month to another, well I'm sorry there are people who are very poor who are good financial managers who can't and if your giving that message out you've just told them that they're crap at it. So where’s your self esteem.’ Female, FV2

**Belief that things can change**
People in financial difficulties have often lost the belief that they can change their circumstances and become resigned to continual problems with no resolution. Developing a belief that things can change and that they have the ability and the power to make changes is integral to the development and maintenance of financial capability. Financial counselors see this as a most important role that they play with their clients. It is also important because clients often lack an effective financial mentor in their lives who would ordinarily provide encouragement and support.

’I say you really budget, you pay your rent? Oh yeah well I do pay my rent and I pay this, and I say well your really budgeting, oh am I, you know they have this concept, because they pay their rent and nothing else, or nothing is left over, that they are not budgeting, so you have to give them that little bit of well look you have done really well, maybe together we can improve on things and sometimes you know, like M said the little lights go on in their eyes and they think they can.’ Female, FV1

’Working on their self esteem or their belief about themselves that yes they can do it and building positives into many areas of their thought patterns.’ Female FV2
'It is important I find to ask them how they’ve come to this point, how they’ve survived you know and they’ll probably say that they’ve struggled and I say well, look really you have done really well, because we all want to hear that we’ve done ok, you know, so I just move on from that and sort of look at their strengths and ok well how do you think, now you can do this better.' Female, FV1

The development of self-belief, and belief in their ability to enact change opens up thinking so that opportunities are identified and change becomes possible.

‘She had a belief about her ability, or had a belief in income, she sort of said like I’m not going to worry about that because it will happen’ Female, FV2

‘So many of them have said you believed in me, you told me I could do it and I have done it.’ Female, HB

**Belief that they will prosper**

Those who have confidence and belief in a positive future are more likely to identify opportunities and to maintain a future focus.

_The incredible part, and I’ve actually looked at this, she had a belief about her ability, or had a belief in income, she sort of said like I’m not going to worry about that because it will happen and she would even though she kept a good budget, she bought herself a house while she was on the benefit through the government plan, you know the housing commission and um sometimes she was really poor but she didn’t act poor, I can remember us going out one night and she only had a little bit in her purse but she looked like...(a million dollars).’ Female, FV2_
Skills and knowledge

Cash flow management
Cash flow management and budgeting are important skills in that they provide a realistic estimation of income and expenses. In many cases people in financial difficulties have unrealistic ideas of what they earn and what the purchasing power is of that income. Financially capable people, on the other hand are aware of the cost of living and of their income and expenditure. While budgeting was important, there was acknowledgement that this term had negative connotations of deprivation and that other terms such as money plan and cash flow had better acceptance. It was also acknowledged that any attempt at budgeting by clients, no matter how naïve, should be praised, as it indicated a desire to change, even if the skill was lacking.

You need to put it down in black and white; until you put it in black and white you can’t see it. So until you actually, so many people when you sit down, and until you put, you do a budget for them and I don’t mean a budget this is what you’ve got to stick to but it is a break down of their costs and bring it right back as to what they’re spending and they look at it and they say oh well now I know why... but up until then they just paid whatever, or they look and say ooh something is costing me a lot of money isn’t it.’ Female, FV1

‘I think a lot of them think that they are earning more than they actually are, like people who get pay increases and you know they get up to $60,000 and they actually think that $60,000 is still quite a bit of money, but it is not if you have got like 3 children in a private school it’s actually not, you know so they actually think, but I’m earning this amount of money, which seems like a big figure but it’s not.’ Female, FV1

You sort of have to sit there, well how long does it take you, that’s 5 years and the credit card is now $10,000 so you have been supplementing your income for $2000 ever year which is more than what you earn and now you are at the stage, this is how you got there, and then they suddenly realise well yes I have because it is all of those extras go on the credit card.’ Female, FV1
**Planning and goal setting**

Financially capable people were seen as having goals and a plan for the future. Those who did not have goals, no matter how short term or small, were at a disadvantage because goals provide the momentum to continue to move forward and also achievement of goals is affirming and contributes to self esteem and a belief that they can change their circumstances.

*Good planning is very important, like for instance if you start off with not very much but you have a plan as to where you want to go then they can often get there by just being careful.* Female FV1

*If you have still got that plan though in place you could hopefully pick it up and keep moving forward.* Female FV1

*Plan is the word that comes into it cause they need to plan on how to distribute their money what they do with it that way.* HB

**Numeracy skills and Researching**

Basic numeracy skills, and being comfortable with using simple calculations along with the ability to research and find information are necessary skills for financial capability.

*I'm convinced of it, you've got to understand figures* Female FV1

*He adds it all up and works out all his figures and puts a lot of thought and effort into doing that* Female, FV2

*Someone who has got financial literacy that they actually have a knowledge of how to go and research* Female FV1

*I don't think you can be ad-hoc it's got to be planned it's got to be researched properly.* Female FV1

**Knowledge**

Financial capability was not seen as having a relationship to knowledge; in fact in some cases knowledge can be detrimental to financial capability.

*I always thought that more a case of sort of understanding how to handle money until I met an accountant who was in financial strife up to his neck, over his head somewhere so I thought that is obviously not the answer.* Female, FV1

*I find it interesting that the academic level of a person is not necessarily reflective of their economic ability to manage their finances, very interesting in fact it is almost the reverse.* HB

*You can be educated well or bought up in the best environment to manage money but your personality may be very relaxed very easy going, you know very sort of carefree and it not flow over into how you manage your money.* Female, FV1
Conclusion

From these focus groups it is clear that financial capability and effectiveness is complex, and difficult to define. While it is not possible to arrive at a fixed set of particular behaviours, attitudes and influencing factors, the results show that some factors that are influential include background factors, norms and attitudes, perceived control and skills and knowledge. As with the Understanding Personal Debt & Financial Difficulty in Australia Report (A.C. Nielsen 2005), having a short term rather than a long term focus, having no concern for financial matters, being materialistic (aspirational), and background factors such as job and relationship security, life changing events and family background are influential on the development of financial capability. In addition, self-confidence and a belief that things can change are necessary elements in enhancing financial capability. Those that lack the presence of a mentor or support person who can provide motivation and encouragement and also act as a trusted person with whom they can talk about money are at a disadvantage.

It should be noted that this paper reports on a small part of a larger ongoing study, and only the results from three focus groups with financial counselors have been analysed. While this provides the opportunity to report on the reflected experience and opinions of this group, the research will be extended by the inclusion of focus groups from financial planners, women, young people and the general population. Nonetheless these preliminary results show that there are wide ranging factors that contribute to financial capability and consideration of these in the design of financial literacy resources, programs and interventions may contribute to their effectiveness. Finally, it is clear that financial counselors have an important role to play in the development of financial capability, and acting as mentors and addressing some of the factors reported in this paper they may be able to improve client outcomes.
References