Exploring the Impact of Family Financial Socialization on Household Money Management

Irma Kurniasari1*, Refiana Dwi Maghfiroh[2], Dimas Nugroho Dwi Seputro[3]

[123] Universitas Pembangunan Nasional Veteran Jawa Timur, Indonesia
*Correspondence email: irma.kurniasari.febis@upnjatim.ac.id

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ABSTRACT

Family financial socialization is the initial process in the formation of individual financial behavior. Parents play a crucial role in instilling financial values, knowledge, and habits that influence overall family financial management. Data were collected through a systematic literature review of scientific articles from 2015-2022 from Scopus, Google Scholar, and other databases, with a focus on keywords related to family financial socialization and financial management. The articles were analyzed using a content approach, identifying the relationship between parents' financial socialization practices and family financial management behaviors, such as saving, budgeting, and expense management. Good financial socialization, such as regular conversations and parental role models, contributes to the formation of positive financial habits in the family. Families that actively discuss their finances tend to be better financially prepared and better able to avoid financial crises. Financial socialization within the family significantly influences the quality of household financial management. Parents' active role in financial education needs to be strengthened to foster a more financially literate and independent generation.

1. INTRODUCTION

The financial sector is an integral part of people's lives, with individuals constantly involved in the budgeting and financial management process. Therefore, financial literacy is a key foundation for setting financial management priorities. A 2020 financial literacy survey conducted by the Financial Services Authority (OJK) found a financial literacy index of 38.03% and a financial inclusion index of 76.19%. This data indicates that, despite an increase from 2016, the public's financial literacy rate remains relatively low (OJK, 2020). This reflects the unequal distribution of financial literacy in Indonesia. People with high levels of financial literacy tend to demonstrate better financial management skills, supporting financial well-being.

According to the Financial Literacy Around the World report, which includes the results of the S&P Global FinLit Survey (2014), low-income countries tend to have lower literacy rates than high-income countries (OJK, 2021). Financial literacy has a direct impact on people's financial health and is a driver of inequality, particularly among low-income and low-educated groups. Financial health is defined as an individual's ability to balance current and future financial needs, as well as their ability to cope with unexpected financial situations (OJK, 2020). Based on an OCBC survey (2022), Indonesians scored 40.06 out of 100. The assessment was conducted on four main aspects: basic finances, financial security, and financial growth. The average Indonesian scored only 40 for having an emergency fund sufficient to cover six months of income, being prepared for job loss, and having a pension fund. The lowest score was for investment ownership, at 9 out of 100. Poor money management habits contribute to worsening people's financial health.

The financial difficulties faced by the community are not solely caused by low income levels, but also by weak financial management practices. Therefore, responsible financial behavior is needed in making financial decisions, such as initiating financial planning (Jorgensen et al., 2017). Financial behavior encompasses both short-term and long-term aspects, such as spending, emergency savings, saving, and investing. This behavior describes a range of activities within a financial context, including spending money, having savings and investment instruments, and making future financial plans without experiencing difficulties (Shim et al., 2015). Responsible behavior will have positive impacts, including meeting needs without obstacles, paying bills on time, and having savings.

Individual financial behavior is largely defined by the lessons learned from parents, who are the primary agents of financial socialization. Sundarasen et al., (2016) highlight the importance of parental guidance in the financial management of younger generations. If properly implemented, this function can significantly contribute to individual financial freedom and the well-being of society at large. Financial education is crucial for young people to manage their finances effectively, avoid excessive debt, and prevent bankruptcy. Family financial management encompasses diverse activities such as budgeting, spending control, saving for the future, investing, and debt management. All of these practices require adequate financial education for their effective implementation. Strong family financial socialization can enhance each family member's understanding of the importance of financial planning and increase awareness of the short- and long-term consequences of each financial decision.

2. LITERATURE REVIEW

Financial Socialization

Financial socialization is a determining factor in shaping people's financial behavior and attitudes, especially in young adults, and in their ability to effectively manage their finances. This literature review seeks to provide an overview of previous studies on financial socialization, focusing on parental influence, environmental context, and their implications for financial well-being in adulthood. Numerous studies highlight the crucial role of parental guidance in shaping the financial behavior of children and adolescents. One of the key tenets of financial socialization research is the recognition of parental influence as a fundamental factor in children's financial development. The quality of parent-child interactions can foster autonomous financial decision-making and behavior and create an enabling environment for financial competence (Fan et al., 2021). Financial socialization programs in families are crucial for improving financial knowledge and communication about financial issues at home. Tang supports this perspective by showing that children often imitate their parents' financial behavior, suggesting that both implicit observation and explicit instruction play a crucial role (Tang, 2016). These dual mechanisms highlight the complexity of financial socialization and suggest the need for greater parental involvement in financial education.

There is an interaction between family relationships and broader social contexts, such as school, peers, and the media (Pak et al., 2023). This theory suggests that financial socialization does not occur in isolation but is strongly influenced by children's environment, highlighting the multifaceted nature of financial learning experiences. While the family remains the primary agent of financial socialization, external factors such as educational institutions and peer influence also contribute to financial literacy and behavior. Zhao and Zhang further explored the influence of parents' educational level on children's financial outcomes and found that parents with higher educational levels tended to contribute more positively to their children's financial literacy, reinforcing the role of parental socioeconomic status in financial socialization studies (Zhao & Zhang, 2020). The importance of financial socialization continues into early adulthood, and parental involvement during childhood continues to have an impact into college, influencing financial practices and life satisfaction (Mahapatra et al., 2023). These findings suggest that parental involvement should continue into early adulthood to support financial well-being and reduce financial anxiety.

Intergenerational analysis of parents' attitudes toward financial planning and saving can persist into adulthood, influencing their children's retirement savings strategies and financial behaviors (Robertson-Rose, 2019). This longitudinal perspective confirms that financial socialization is an ongoing process and can contribute to young adults' financial resilience. Similarly, Zupančič et al. found that positive financial outcomes in children can stem from their parents' financial learning experiences, demonstrating the reciprocal nature of financial socialization (Zupančič et al., 2023). Experiential learning complements traditional models, such as observation and discussion, by providing hands-on experiences that can strengthen children's financial literacy (LeBaron-Black et al., 2018). This approach emphasizes the importance of active engagement in financial education, rather than passive learning, and encourages parenting strategies that incorporate real-life financial experiences into daily life.

Financial socialization is also recognized as crucial for addressing financial stress. Zhao et al. demonstrated that cognitive and non-cognitive skills developed through financial socialization significantly contribute to reducing financial stress in young adults (Zhao et al., 2023). This relationship highlights the multidimensionality of financial literacy and its psychological underpinnings, indicating that financial socialization can have a long-term impact on an individual's mental health and well-being. While parents play a crucial role as primary financial educators, the contributions of schools and peers cannot be ignored. Therefore, effective financial socialization strategies must be holistic, integrating diverse educational approaches and considering family dynamics and each individual's socioeconomic background. Empirical evidence indicates that understanding and improving financial socialization practices can significantly improve financial literacy, capabilities, and well-being across generations, which has important implications for policymakers, educators, and financial advisors.

Household Money Management

Household financial management encompasses various practices and approaches adopted by families to handle financial matters effectively. Financial literacy, defined as the knowledge and skills necessary to make sound financial decisions, has been shown to significantly influence various aspects of household financial behavior and outcomes (Remund, 2010). Financial literacy is directly correlated with economic participation, particularly among women (Arini et al., 2020). They argue that higher levels of financial literacy empower women, facilitate their involvement in economic activities, and contribute to poverty reduction. This view aligns with Adiputra's, who highlighted that financial literacy positively impacts financial satisfaction in various communities, emphasizing the crucial role of literacy in making wise financial decisions (Adiputra, 2021). Kim et al. also underscore that a lack of financial literacy can lead to detrimental financial behaviors and decisions, thus threatening household financial stability (Kim et al., 2017).

School and family environments shape adolescents' confidence in managing finances, which indirectly strengthens their financial literacy skills (Šilinskas et al., 2023). These findings emphasize the need for integrated financial education, encompassing both formal and informal learning, to foster a holistic understanding of finance from an early age. Cultural factors have also received significant attention in the literature as influencing household financial management. For example, Gumbo et al. provide insights into the dynamics of financial decision-making within Zimbabwean households and demonstrate that cultural nuances significantly influence the type of financial literacy needed to manage daily financial responsibilities (Gumbo et al., 2022). Similarly, Othuon and Othuon discuss the impact of consumer credit on household financial decisions in Kenya, highlighting the importance of financial literacy in addressing problem loans (Othuon & Othuon, 2023). Their research shows that a lack of financial literacy contributes to increased financial vulnerability, highlighting the need for financial education tailored to specific challenges in diverse cultural contexts.

Furthermore, the literature highlights that attitudes toward finances play a crucial role in shaping household financial management strategies. Xu et al. found that cognitive factors such as attention limitations can significantly hinder financial behavior, even when households have high levels of financial literacy (Xu et al., 2022). This suggests that financial behavior is not solely a product of knowledge but is also influenced by psychological factors that influence decision-making (Allgood & Walstad, 2016). Therefore, an approach that integrates psychological insights with financial education is needed to improve comprehensive household financial management strategies.

Furthermore, the impact of life events and socioeconomic conditions on household financial behavior also deserves attention. Studies show that financial shocks, such as job loss or medical emergencies, can drastically impact household money management practices. For example, the COVID-19 pandemic has reportedly exacerbated household financial vulnerability, highlighting the crucial role of financial literacy in providing resilience against negative outcomes (Pepur et al., 2022). Researchers such as Martaningrat and Kurniawan explore how these life events influence investment decisions among young adults, influenced by socioeconomic factors and the drive for financial independence (Martaningrat & Kurniawan, 2024). Another important aspect is the intergenerational transfer of financial knowledge and practices. Britt reveals how attitudes toward money passed down through generations within families shape the financial behavior of subsequent generations (Britt, 2016).

3. METHODS

This study applies the Systematic Literature Review (SLR) method, referring to the framework of Mengist et al., (2020) to compile a structured and comprehensive literature review. Twenty selected articles published between 2015 and 2022 served as the basis for the study. Article selection was carried out through a systematic process consisting of six main stages. The first stage is research identification, which aims to define the boundaries and focus of the study to ensure a more focused literature search and avoid bias. At this stage, the problem formulation is explicitly formulated to identify the main focus of the study, namely understanding the influence of financial teaching by parents on family financial behavior. The second stage is the literature search, which is carried out by designing a search strategy based on keywords relevant to the research focus. Keywords such as "Parental financial teaching", "financial socialization", "financial literacy", and "Household Money Management" were used with the help of Boolean operators (AND, OR) to generate optimal term combinations. Google Scholar was chosen as the primary source because it provides access to various types of academic documents, including journal articles, proceedings, and research reports, in the 2015–2022 period. The third stage is document assessment, which includes two sub-stages: data selection and quality assessment. The fourth stage is literature synthesis, in which the researcher carries out the process of extracting and classifying information from the selected articles. This process includes mapping articles based on general information such as title, author name, year of publication, methods used, main findings, and research suggestions. The purpose of this stage is to identify patterns, gaps, and directions for the development of studies relevant to the topic. The fifth stage, namely literature analysis, is carried out to evaluate the findings contained in the selected literature. The results of this analysis are not only used to organize the discussion in this study, but also serve as a basis for formulating practical and theoretical implications, and provide directions for further research. The final stage is reporting, in which all the results of the synthesis and The analysis is structured in the form of a systematic narrative that includes an in-depth discussion of the main points as well as drawing conclusions from the literature reviewed.

4. RESULTS AND DISCUSSION

This research shows that financial socialization within the family plays a crucial role in shaping household financial management behavior. This process continues from childhood to adulthood, with parents acting as the primary agents through both direct instruction and role modeling. Good financial communication within the family has been shown to improve children's financial literacy and independence. In addition to the family, social environments such as schools, peers, and the media also influence the socialization process. Parents' education level and hands-on learning experience are factors that strengthen the effectiveness of financial socialization. This socialization not only contributes to improved financial management skills but also reduces financial stress and supports individual mental well-being.

The results of this systematic review demonstrate that family financial socialization plays a central role in shaping individual financial behavior, which ultimately contributes to overall household financial management. Parents, as the primary socialization agents, transmit financial knowledge not only explicitly through direct instruction such as how to save, budget, or avoid debt, but also implicitly through the behaviors they display in their daily lives. These financial interactions begin in childhood and continue into adolescence and young adulthood. The studies analyzedsuch as those by (Utkarsh et al., 2020); (Noh, 2022); (Zhu, 2019) consistently show that financial learning experiences from parents, both verbally and through real-life examples, have a long-term influence on children's financial behavior, including disciplined bill paying, budget planning, and emergency preparedness.

The discussion also reveals that this socialization process is not uniform, but is heavily influenced by social, economic, and cultural contexts. Factors such as parental education level, family socioeconomic status, and financial communication habits all contribute to the effectiveness of this socialization. In many cases, parents with low financial literacy tend not to discuss money openly or model good financial management, creating gaps in their children's financial knowledge. However, in families that encourage open and participatory communication about finances, improvements in children's financial literacy and independence, including the ability to make wise financial decisions from a young age, have been found. In addition to internal family aspects, external environments such as schools, peers, digital media, and hands-on learning also play a supporting role in strengthening the socialization process. However, the family remains a very strong initial foundation, and these early interactions shape children's long-term orientation towards money. In the household context, literature shows that individuals who receive positive financial socialization tend to be better prepared to manage household budgets, have emergency savings, and are less easily tempted by consumer debt. This aligns with the finding that there is a strong link between financial literacy instilled in the family and household financial resilience.

Using a Systematic Literature Review (SLR) approach to 20 articles published between 2015 and 2022, this study not only identifies general patterns and trends in previous research but also highlights the importance of family-based interventions in financial literacy programs. Appropriate financial socialization within the family environment not only improves individuals' ability to manage money but also reduces financial stress and supports the psychological well-being of family members. Therefore, to achieve effective and sustainable household financial management, serious attention is needed to how financial values and knowledge are conveyed within the family, including through public policies and community education that are contextual and locally based.

5. CONCLUSION

Based on the results of this systematic review, it can be concluded that financial socialization within the family plays a significant role in shaping individual financial behavior and overall household financial management. Parents, as the primary agents of socialization, influence children's financial literacy and behavior through direct teaching, role modeling, and financial communication, occurring from childhood to adulthood. This process not only impacts saving habits, budgeting, and avoiding consumer debt, but also improves financial resilience and family well-being.

Factors such as parental education level, parenting style, social environment, and direct experience contribute to the effectiveness of financial socialization. These findings emphasize that financial literacy is not sufficient simply by accessing information; it needs to be instilled from an early age through a supportive family environment. Therefore, efforts to improve national financial literacy should include a family-based approach through educational programs, awareness campaigns, and policies that support parents' role as their children's first financial educators. This way, increased household financial management capacity can be achieved in a sustainable and inclusive manner.

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