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Situating financial literacy

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ABSTRACT

This paper comments on the conceptualisation of financial literacy by investigating how it is defined, problematised, and operationalised as a part of the efforts to overcome its perceived impediments. The backdrop of this study is the idea that the financial literacy movement goes hand in hand with the financialisation of society. By reporting from a study of financial literacy practices, the aim is to disentangle the notion of financial literacy from the assumption that it is a singular capability that, when gained, will automatically affect people's financial practices. The paper draws on a recent development in literacy research, New Literacy Studies, and on its division into autonomous and ideological definitions of literacy. The empirical illustrations originate from the efforts made to decrease financial illiteracy among Swedish adolescents and the demand for financial literacy in audit committees. Contrary to earlier studies, this paper demonstrates that financial literacy does not merely refer to a character trait that researchers may find lacking among the marginalised actors in society. Financial literacy cannot merely be viewed as the ability to read and write in the language of finance and accounting. Instead, financial literacy is a concept that needs to be situated and studied in practice because the characteristics that constitute financial literacy, or those that apply to it, vary with time and place.

1. Introduction

A recent report from the International Organization of Securities Commissions (IOSCO) concludes as follows:

> *No matter what disclosures are mandated, they will not have the intended effect if the investor either does not read and/or understand the information provided. Regulators should therefore consider measures to help improve retail investor education in order to enhance their financial literacy and ability to read investment documentation and make informed investment decisions* (IOSCO, 2009, principle 6).

Contrary to IASB and FASB's solution to improve market efficiency by demanding increased disclosure, IOSCO (2009) qualifies the problem of information efficiency as the inability of investors to accurately understand financial information. This state of affairs is described as an obstacle that needs to be overcome. This conclusion is not limited to IOSCO, however. Parallel with the financialisation of society (Epstein, 2005; Finlayson, 2009; Froud et al., 2002; Martin, 2002), actors including The World Bank (2009), the OECD (2005, 2006, 2008, 2009) and the European Commission (2007) have all concluded that

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financial literacy programmes need to be initiated. The reports are univocal in their conclusion: the level of financial knowledge needs to be raised so that non-professional investors can act in a financially responsible manner.

Increased financial literacy is believed to not only prevent negative impacts on the financial markets (cf. IOSCO, 2009) but to also contribute to improving corporate governance. According to Williams (2007) "[l]iterate, skilled consumers are expected to search the market effectively, monitor firms attentively, switch providers efficiently, and exercise their consumer power to drive out of the market firms that are dishonest, incompetent, or indifferent to consumers' needs" (p. 233). Thus, financially literate actors drive both efficient markets and effective corporations.

The problem of financial literacy, however, does not reside only among the non-professional investors. Although the higher level employees in organisations are implicitly expected to possess this capability, the recent financial crises illustrate that the risks of investing in and accounting for new financial products was understood neither by the professional investors nor by the firms. As a response to the diminishing level of trust (Finansinspektionen, 2009), financial literacy has also become an issue for boards of directors, with questions as to whether the accounting and auditing "scandals" would have occurred if the boards of directors had been sufficiently competent. Consequently, the issue of financial literacy is of concern both inside and outside of the organisation.

There are three research traditions concerned with financial literacy (Almenberg and Widmark, 2011). The first tradition seeks to measure the level of financial literacy in different demographic areas (Almenberg and Widmark, 2011; Huston, 2010; Jappelli, 2010; Lusardi and Mitchell, 2007). The second tradition investigates the effects of financial literacy on financial decisions (Almenberg and Widmark, 2011; Carter, 1973; Johnson and Sherraden, 2007; Lusardi and Mitchell, 2007; Van Rooij et al., 2007). The third tradition studies the effects of financial education. A central debate in the latter theme is whether financial illiteracy can be overcome (Fox et al., 2005; Lyons et al., 2006; Oehler and Werner, 2008; The World Bank, 2009; Willis, 2009). Taken together, the research addressing financial literacy suggests that (1) there is a delineated and stable notion of financial literacy; (2) the financial skills underlying the notion of literacy predict how the individual will make financial decisions; and (3) by being taught how to acquire and foster these skills, a financially incapable person can become a capable investor (Langley, 2008).

This paper questions this line of argument. The aim is to disentangle the notion of financial literacy from the assumption of a singular capability that, when gained, automatically affects people's financial practices. By examining *how financial literacy is configured in the private as well as the corporate sphere*, this paper demonstrates that financial literacy is not primarily about possessing the skills to interpret accounting and financial information. Rather, what constitutes financial literacy changes when different social settings are considered.

To emphasise the context-bound meaning of financial literacy, this paper draws on two cases of financial literacy discourse in Sweden. These cases both share the goal of raising the literacy level, although in different areas of society. The first case examines financial education for high-school students. This case offers an opportunity to witness how financial literacy is configured in a setting in which the financially illiterate are predominantly consumers and describes a situation in which young people lack the ability to manage their personal finances. The second case examines board work in public companies and the companies' efforts to include a financially literate person in their audit committees (hereafter, ACs). The committee members' level of financial literacy came into increased public focus after the scandals in the beginning of the century (Benston and Hartgraves, 2002). Although the relationship between an AC's effectiveness and the financial literacy of the AC has been questioned (Gendron and Bédard, 2006; Turley and Zaman, 2007), financial literacy became a regulatory concern in the EU with the 8th Directive (European Commission, 2006). This paper takes on these two cases to analyse a concept that has become a benchmark for progress in the financialisation of society.

This paper provides an account of a strand of literature labelled New Literacy Studies (NLS). NLS represents a broadened view of how to understand literacy, which, in terms of this paper, offers theoretical arguments for analysing our data. This paper continues by describing how the data were collected and coded, followed by an analysis of the two cases. The conclusions about the results are presented in the final section of the paper, accompanied by a discussion of how this study contributes to defining areas that are appropriate for further research into how financial literacy interplays with the consumption of accounting information.

2. Financial literacy from a new (literacy) perspective

Beginning with the basics, the Collins Dictionary states that literacy refers to

> *The ability to read and write; the ability to use language effectively.*[1]

This definition encapsulates the dominant (and common-sense) idea about literacy, which also suggests that literacy is something desirable. According to Gee (2008), this attitude towards literacy is related to the belief that literate people make up a modern and civilised society. Being modern and civilised then provides an empowering ability (Freire and Macedo, 1987) that allows individuals to think rationally and to take critical stances (Gee, 2008). These positive attributes are assumed to be components of higher social equity (ibid.) because high literacy rates are associated with democratised societies. In this tradition, literacy is a practice that can be mastered through the acquisition of the right skills and that, to a

[1] http://www.collinsdictionary.com/dictionary/english/literacy (24 February 2012).