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THE CORRELATIONS BETWEEN CONTROL OF PERSONALITY (INTERNAL AND EXTERNAL LOCUS OF CONTROL) AND FINANCIAL BEHAVIOUR

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Abstract

Our paper surveys certain explanatory factors for 'control' and its financial consequences. Control describes to what extent an individual feel responsible for the things happening to them and also to what extent external factors are blamed. (In general, a person with internal control perceives the positive or negative events happening to them as a controllable consequence of their own behaviour. In contrast, a person with external control perceives the positive or negative happenings as if there were not any correlations with behavioural patterns and personality traits.) Results show that the elderly tend to be internally controlled when compared with the young and those with higher qualification are also rather controlled internally. It is typical that those with higher income and the self-supporters (who study without the support of their parents) are rather internally controlled. Moreover, the person with internal control is characterised by thrifty and self-supporting attitude as they dare to ask for credit and debts do not bother them as much as the individual with external control.

Key words: locus of control, financial way of thinking, financial behaviour

Introduction

Today's greater and greater challenge is the economic and social integration of those lagging behind together with finding the means of education that can create equal chances for the disadvantaged young. It is obvious that not only knowledge transfer but also direct personality transformation and developing certain skills expected by society must take place within the walls of the school. The previous Prussian-type traditional system of education [1] must be substituted by a new form of training that can also meet the challenges of globalisation. One of the personality traits that must

1 Péter Popper has a proper metaphor to illustrate its structure. A German-type school is such a system that puts children aged 6 or 7 on a conveyor belt both sides of which teachers stand. Every year in each subject they add some knowledge to the child and it goes on for decades. A good child is allows knowledge enter and cooperates with the 'operators' and for whom the speed of the belt is proper (if it is too slow, the child is bored but if it is too fast, they cannot keep pace with it). (Popper, 2010)

be improved by all means is 'internal control'. ('Internally controlled' is a person who regards events happened to them as if they were beyond their influence or control.) Several researches point out that the locus of control is interrelated with the social and economic position (Lim et al, 2003). However, a big question is which of them the reason is and which one is the cause. In other words: they are in higher social and economic status because they are internally controlled or because their socio-economic position is high, they are much braver and more self-confident. Both can be possible. Psychological experiment shows how the focus of control can be developed and directed from outside to inside but no research are available if it really improves the chances of changing status. In our opinion the internalisation of external control can surely contribute to increasing the chances for the disadvantaged.

First of all, our study tries to reveal the importance of 'control' at schools (supported by research results). Literature review proves that improving certain personality traits can improve economic chances, success and making a living. Afterwards, our attention is specifically drawn to 'external-internal control' and these terms are defined from many aspects. Our basic statement is the psychologic principle according to which childhood also determines this aspect. We learn from success/failure whether it is worth repeating our behavioural pattern or if our performance really depends on our own actions or rather it is the external factors that determine it. As we have different educational experience throughout life and our ability to process it also differs, our expectations for the future are also different. Furthermore, it is also emphasised that the external and internal control type mean the final points of such continuum where a person with absolute external control and totally internal control are just theoretical constructs.

Extenal And Internal Control

Theories on personality can be classified depending on whether the wish to assess a wide range of personality or human behaviour or just give explanations on a narrower segment of behaviour (such as internal and external locus of control). This chapter presents the relevant parts of the personality theory of S. Freud and E. Erikson followed by the definition of Rotter (1954) for external and internal control dimension.

S. Freud was the first psychologist to deal with control. In his opinion at the second stage of personality development (anal part, 2-3 years) the biggest challenge is being house-trained, i.e. retention and relaxation/control. At that time the child has to learn to postpone the joy felt over easing the anal tension (emptying). Training by praises can become the basis for creativity (e.g. it is worth producing) while a too strict and punitive training can produce a personality of 'emptying' and a personality of 'retention'. In the previous case the child actively protests by emptying when the parents would at least like it and later on they can turn to be messy, openly fierce, unfriendly and sometimes even merciless. The latter one, on the other hand, can re-

sult in being inflexible, frugal, compulsive etc. The notorious love of cleanliness and order can also be formed.

Although Erik Erikson agrees with Freud that personality is built up by consecutive stages, he extends this process of development to the whole life. The central ideas of his theory are self-identity[2] and competence. He believes that our identity is continuously changing in response to the social environment but at the same time, creating a strong self-identity is of key importance in life. The competence feeling and mastering things together with living the success are essential in forming our identity and solving the problems of the different stages. He describes eight stages of development[3] all of which are dominated by a certain part of interaction with the social environment. Not describing the single stages in details now, our attention is directed to the stage of 'Autonomy-Doubt' experienced at the age of two and 'Initiative-Remorse' at 3-4 that are relevant for our topic. The period of 'Autonomy-Doubt' is dominated by grabbing and letting loose as described by Freud. The meaning of autonomy is the control of actions that applies to the functions of secretion, emptying and also the intensive interaction of the child with people. (The task of the parents in creating autonomy is to protect children from unnecessary failures and encourage them to be self-supporting.) The root of doubt is the invisibility of things behind (bottom, faeces). The prevalence of the latter feeling can determine strong external control and in pathological cases it generates compulsive behaviour and paranoid fear. In the 'Initiative-Remorse' stage the intensification of 'doing something, getting closer' feeling is a positive outcome and the passion of conquering becomes fixed. Responsible behaviour arises together with the ability of understanding rules and the intention of taking care of the smaller ones, courage in realising our goals and making their wishes come true while expressing them. If the children are not allowed to follow their way, they feel remorse because of their efforts to break free. Ascetic abeyance, inflexibility, excessive morality and possibly the total

2 Identity feeling is the overwhelming hope of personality that the integrity and continuity of their internal selves will meet the desired one and their career and prospects can support their need for identity. Erikson differentiated four aspects of identity.

1. experience of being, life feeling (self -identification, stability, desire of reaching continuity);
2. motivation (tension of being, basic directions);
3. development (at stages in time);
4. history (we are born in a history, that is why part of our identity is determined).

3 The stages of development can be linked to a psychosocial conflict or crisis that is not a crisis or a conflict word for word in its traditional sense. They are turning points and the normal phenomena of life hiding the potential of changes and improvement inside. The resolution of the given crisis/conflict does not mean the total eradication of the problem in our lives. We can face this problem again and again in life in different situations and through conflict resolution we experience 'good and 'bad' outcomes. The collateral of a healthy development is to manage the crisis of the given stage with success.

oppression of incentives or the exaggerating over-compensation of anxiety can be the consequences in adulthood.

The social learning theory of Rotter (1954) gives more special and better defined terms. He states that the dimension of external or internal control differentiates people alongside external justification or internal drive. According to Rotter a person can be called internally controlled if they believe what happened happens or will happen to them is directly related to personality traits and also with what he did, does or will do in a certain situation. If 'good' things happen, they contribute it to perseverance or hard work or may be the power of influencing. The occurrence of inconvenient events is also derived from their own behaviour/personality traits. If they try hard and fail, the conclusion of not working hard enough is drawn or they may not have been going on the right way, they were not fit enough to accomplish the task or in some other ways they are responsible for the failure of the past, present and future. Consequently, if the person who chooses this way of thinking is able to actively look for and create the possibilities of satisfaction and would be able to select the most appropriate one of the alternatives of behaviour beyond their control, which makes them possible to adapt efficiently. On the other hand, a person who believes that the happenings are not in connection with their action or personality is 'externally controlled'. The events are contributed to luck, fate or the impact of others-such a power that they cannot control. Failures are not seen as their own weaknesses by the externally controlled individuals and they often think it is not worth making efforts as they will fail (learnt inability). External control goes together with lack of self-confidence and belief in own abilities (Oláh, 1982). Research also proves the correlation between depression and external control. Both extremities adapt worse but in general the eternally controlled are 'psychically less healthy' and the number of suicidal attempts are higher.

James (1957, in: Battle, E. S. – Rotter, J. B., 1963) has further results of interest. In his research the 'more considered' children are rather internally controlled and take more responsibility for their success and failure and also they await success more as a result of their actions. Several later researches justify these results. Seeman and Evans (1962, in: Gore, P. M. – Rotter, J. B., 1963) examined in-patients in hospitals alongside the dimension of external and internal control. According to their results the internally controlled patients were better informed about the characteristics of their illness and their condition. The results of Gore, P. M. – Rotter, J. B. (1963) reflect that the segregated black students who had internal control wanted to improve their social standing more intensely than their counterparts with external control. Battle and Rotter (1963) compared black and white children aged 13-14 coming from lower social classes. One of the most interesting findings of their research is that the poorer environment the subjects examined come from, the more typical external control was of them. It held true especially for black students.

The external-internal control and externally-internally controlled economic activity

'The most frequently made mistake in financial decisions is excessive self-confidence'- writes György Jaksity in his monograph on money (2003, p. 421.) In contrast, György Soros, in his reflexivity theory mentions the fact that on the money market people watch one another and respond to every reaction as the main reason for the unpredictable hectic movements of the stock exchange (Soros, 1999). The outward look of homo economicus[4] and their outburst triggered by their reactions to the others' actions result in, for example, the stock exchange panic or crash, among others. Per Bak (1997) has a similar logic for modelling who implicitly gives an explanation for the economy not following the equilibrium models of the economists by the fact that the economic players watch one another (they are externally controlled). '…The economy, in real, is not like water, it is like sand. Decisions are discrete like the grains of sand and not continuous like the level of water. In real economy, just like in sand, there is friction….We only buy and sell shares and stock only if some threshold value is reached, otherwise we are inactive like the crust of the earth is stable till power affecting either side will reach a threshold. We do not correspond our portfolio with the market changes'. (1997, p. 8.)

So the market players assess their steps in relation to others'. What is more, it even works such as the game theory models of economics where a significant role is attributed to proper self-control (having a strategy). It is up to the market players whether they decide on the basis of their inner drive or logic or react to the others' actions (which, of course, depends on experience, as well).

External and internal control cannot be properly traced down while assessing factors in decision making. It is not necessarily the main borderline whether it is their own economic rationale or expectations from outside influence decision making. The border lies to what extent and who feels 'free and independent' or how predes-

4 Opposing external and internal control of course, calls for a broader aspect than the analysis of mindsets reflected in economic thinking, attitudes and patterns of behaviour. Regarding our topic, i.e. dealing with money and orienteering in the world of money, the differentiation of homo economicus and homo sociologicus is of primary importance. Rudolf Andorka, a famous economics and sociologist in one person tried to make a judgement in the argument of the two disciplines representing two ideal types as idols '…the image of mankind and society of both economics and sociology extremely simplifies reality. Man is not only governed by their economic interests but also their values and moral standards. Social interaction and cooperation is not only based on the market but it is also the unanimous agreement of the members of society on values and standards. That is why the image of mankind and society of the two disciplines must be synthetized'. (Andorka, 1996, p. 147.).

tined they think their fate is by an external (divine or social, or communal) power, will or gravity. It is about the old philosophical or religious problem of 'free will'. It is a very interesting logical paradox that Max Weber supposed it is the protestant religious ethics of final predestination that created the ideology of performance-oriented capitalism. Such an approach of external and internal control is close to Rotter's basic theory. It is also the point where the problem of cause and reason is raised again. The formation of individualistic and collectivistic members of society is not only due to personality development or personality improvement but also the problem of the governing social culture at the given place.

However, our research does not deal with the macro-social and cultural determinants of the evolvement and development of externally and internally controlled personality. We stay on the level of individual development and to put things simple, the surrounding social culture is also regarded neutral.

Empiric Results Connected To External And Internal Control

In the process of socialisation and contact with the others an important stimulus is reinforcement, reward or punishment. Depending on the content of the patterns of behaviour attached, the external or internal control of personality is determined. The following part publishes results that serve interesting data on the personality of the externally and internally controlled individuals.

The correlation of internal/external control with other variables

Sayin (2000 in Serin et al 2010) concludes that the externally controlled individuals are more creative, effective in reaching their goals and more successful in their professional and personal relations. According to his results men tend to be more internally controlled than women. Students with higher income are also controlled internally than those with medium or low income. Those living with their families are rather internally controlled than the others living separately in lodgings or a student hostel. A further interesting result is that students coming from a family with five or six children are rather internally controlled than those who have fewer siblings. They conclude that control depends on the parents' attitude and the place where they spend most of their lives.

The objective of the research of Serin et al (2010) carried out in Turkey was the examination of the factors that affect the control of university students. The locus of control was examined by gender, social and economic standing and the place of residence while being a student at university. Their results correspond with those of Sayin (2010) according to which male students tend to be more internally controlled than females. They think the internal control of men can derive from the freedom

given to them by their families and also they have more alternatives compared to women. The control of students showed a correlation with their social and economic situation, as well. They distinguished between student groups of low, medium and high social and economic standing. The students living at low and medium standards are externally controlled while those living at high standard have internal control.

Lim et al (2003) concluded that the externally controlled persons regard money as a resource to a greater extent than those with internal control and they use it to reach a certain standard of living. In the dimension of budget the internally controlled are stronger, i.e. they are more considerate with money and they save more. It can be explained by the fact that they believe in their efforts and abilities and, as a result, they can lead a more successful life on their savings. Another interesting result is that the externally controlled regarded money as a basis of social judgement and the source of power so they were less willing to give it away. In general, they thought that they cannot control things but they rather depend on factors from outside such as luck.

Lea et al (1995) examined debtors/non-debtors regarding control but no significant difference was found between these groups form this aspect.

Kidwell and Turrisi (2003) examined the financial management decisions of university students. The authors were governed by the belief that money and budget can have an impact on our spending habits, perceived opportunities and the normative effects attached. They think the efficiency of the budget can reduce the probability of over-spending and over-consumption that define the acceptable level of indebtedness and the perceived economic welfare. In their mind reducing debt can be a useful step in the series of actions taken against debt if we find and understand the indicators that affect money management. Their research was done on the basis of two models. The model of intention to maintain a financial budget examined the impacts of attitude, subjective norm, external impact, past behaviour and perceived control where the latter one had an effect on subjective norm and external impact. Their model of budgeting attitude contains five variables: the positive impact of outstanding results, the negative impacts unwanted efforts, the negative effects of budget limitations, perceived knowledge and transparent spending.

According to their results the respondents who had a higher perceived control contributed their keeping or not keeping to the budget to their own characteristics while those with a lower perceived control blamed external factors for it. The students with a higher perceived level of control the individual norms and objectives were tightly correlated while in the case of those with a lower level, the selection among objectives was strongly correlated with external negative effects.

Finally, the authors in their study offer two strategies to improve the financial control of students. 1. Such messages must be formulated that emphasise the utility of setting the budget by exercising control over spending or decreasing the negative opinion according to which control stands in the way of buying desired things. (Changing these beliefs would probably affect attitude). 2. Drafting such messages

is advised that concentrate on objects available even while keeping to the budget. In their opinion keeping to the budget (internal control!) can be a useful method to ease the tension of people like worrying, stress and frustration, towards money matters.

Mihály et al (2014) in their paper found out what external and internal control mean and how they can be formed. Within the framework of a non-representative questionnaire survey on a small sample it was also assessed whether a difference can be made between typical ways of financial thinking and patterns of behaviour alongside the above-mentioned dimension.

Significant results show that it is worth putting the stress on improving internal control at schools as the internally controlled persons on the adult yet university student sample are characterised by the following.

- thrifty and self-supporting attitude;
- less tension and anxiety in money matters;
- willingness of self-support – e.g. working;
- taking on credit – and gaining profit from it;
- less stress and tension in financial matters.

Summary

Our paper found out what external and internal control mean and how they can be formed. Based on the literature review it is obvious that strengthening 'internal control' does not only affect the current/future financial behaviour but also it has an impact on the level of anxiety, self-esteem and directly affects performance orientation and success in other areas of life (e.g. career, relationships, raising children etc.) The question is raised whether school can balance and if so, how the possible negative parental impacts and sociocultural innervations. For example, can a parental attitude of excessive caring and thus controlling and blocking initiatives be changed by the school or not? (Or what chances and instruments teachers at elementary/secondary school and university have at all from this aspect?) A longitudinal examination carried out on control groups would be interesting and useful in which students of different age would be assesses on the basis of their internal/external control. Afterwards, the strongly externally controlled ones could be improved in a special programme focusing on internal control and finally, the different assessment methods could be checked whether there were changes and if so, what areas they affected.

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