Cross Cultural Approaches to Home Management

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Determinants of Effects of Bankruptcy and Satisfaction with Bankruptcy (a Solution to Credit Problems):
An International Comparison

Tahira K. Hira

Background

The concept of credit has existed and been in use almost as long as there has been civilization. It predates, by a considerable length of time, the use of money, and written references to it appear as far back as in the Code of Hammurabi, established around 1750 B.C. What is very different about the credit in the twentieth century is the way and the extent to which it is used. From its beginning in antiquity, however, credit has been used as a selling tool, to bind customers to a particular vendor, and to allow them to acquire more substantial goods for which they do not have the necessary capital (Mandell 1990). New forms of the credit were created to make borrowing more and more convenient. Credit instruments such as overdraft provisions, on-demand deposits, signature loans, and telephone auto loans greatly reduced the time and effort involved in obtaining credit. Consumers have been experiencing plastic revolution.

Consumer credit has brought high standards of living for the consumers and profitability for the lenders. New and different products are being introduced and marketed every day. Using relaxed criteria lenders are aggressively marketing the variety of products in the world market, and extending credit to high risk population. Attitudes toward borrowing are also relaxed. The value system guiding consumers to save, wait and buy has been changed to buy now, earn and pay latter for most consumers. In the presence of severe competition among credit grantors the burden of deciding how much debt is appropriate has fallen on the borrower.
Ironically, even as consumer debt grew exponentially, surveys continued to indicate that most Americans still disapproved of it. However, this attitude has not stopped them from using it. Unlike Europeans and consumers in other countries, Americans have made considerable use of credit for most of the country's history (Mandell 1990).

Consumer indebtedness seems to have grown in most countries in the last few decades. Increasing numbers of consumers are defaulting on their debt payment obligations. Inability to keep up with their contractual obligations results in not only financial but also personal and family complications. As a last resort to solve these problems debtors file for consumer bankruptcy. Numbers of bankruptcy filings among consumers are on an increase in many industrial countries (Hira 1992). Professionals working with those facing debt problems have identified factors leading to debt problems. These include (a) change in individual's economic circumstances, (b) lack of knowledge and management skills, and (c) changes in external environment including the economy, policy, bankruptcy legislation, and financial products and services. An analysis of indebtedness from the consumer policy point of view should not only be based on a consideration of aggregate figures but also include the debt problems of the consumer as and individual, and how consumer failures are handled.

Significance of the Study

Consequences of increase in numbers of consumer defaults are far reaching for both the individual and the society. For the society as a whole the results can be seen in the form of increasing interest rates, limited supply of credit, shorter grace periods and higher fees on credit cards. For the individual it often involves feelings of shame, guilt, blame, inadequacy, loss of control over one's life. It can result in other problems such as health and employment problems, marital discord (which can lead to separation or divorce), and family dysfunction caused by the severe aggravation involved, as shown by the Brighton and Connidias (1982) study of 50 families who were financially insolvent and filed an assignment into bankruptcy.

To reduce negative outcomes, it is essential that the causes of debt problems be clearly understood, specific solutions to debt problems be explored and strategies to help consumers prevent future debt problems be developed. Furthermore, given the global nature of credit markets, cross cultural applications of these efforts must be explored.

With speedy globalization of financial markets, many problems facing consumers are common among industrial countries. Increased understanding of the impact of access to multiple credit products and automated financial environment will enhance educators' ability to develop appropriate programs and teaching materials in the area. Cross cultural comparisons would be helpful in creation of educational programs and materials that can be exchanged among countries.

Shucman (1973) purports that in controlling for economic circumstances, most families in the group that might benefit from the unique remedies which bankruptcy provides do not file petitions; but whether that is by choice or due to moral aversion or for lack of knowledge or fear of the consequences is not known. As a correlative function of these unknown factors, we know little of what differences there are between filers and their non filer cohort group. Bankruptcy is often said to be a labeling process to inflicting stigma upon the bankrupt. But the anticipated or actual impact of bankruptcy may vary greatly by type of person or group and, in any event, we do not know enough of the non-monetary consequences of personal bankruptcy. The quality and the extent of such knowledge are inadequate to resolve descriptive and contextual problems related to bankruptcy.

This study focuses on: (a) exploring bankrupts' attitudes towards credit, (b) determining the effect of bankruptcy on various aspects of bankrupt's life, and (c) determining debtors' satisfaction with the bankruptcy process. It also presents differences and similarities in all above listed areas among bankrupts in Canada, Scotland and the United States.
Literature Review

**Attitudes toward money**

Despite the significance of money and credit in western society, few if any, cross cultural studies have been conducted on the origins of the attitudes towards money. This situation is in part due to the lack of adequate assessment instruments (Furnham / Lewis 1986) and the various societal taboos against studying beliefs about money (Goldberg / Lewis 1978; Krueger 1986). There have been a few attempts to develop a valid and reliable instrument to measure beliefs and behaviors regarding money. They include measures such as those by Goldberg / Lewis 1978; Rubinstein 1980; Yamauchi / Templer 1982. Baily / Gustafson (1986) examined gender and gender role differences in attitudes toward money among college students, they also examined the relationship between personality factors and attitudes towards money (1991). Price (1968) developed measures to analyze the economic value system for the family. She identified five categories of financial attitudes: status, security, self-actualization, self-indulgence, and faith. In this study majority of the respondents ranked self-actualization as the most important of the five specified economic standards.

Yamauchi / Templer (1982) conceptualized five content areas of the psychological aspects of money: retention-time (future planning oriented), power-prestige (status seeking and external recognition), distrust, quality (purchasing of quality products) and anxiety (money a source of anxiety and a source of protection form anxiety) they reported that these attitudinal factors are essentially independent of a person's income. They also concluded that distrust and anxiety demonstrated a strong relationship to the various clinical syndromes.

Baily / Lowen (1992a) explored differences in money attitudes between U. S. and British consumers. According to the results, while no significant gender differences were reported by Furnham among his British respondents, American males were much more likely than females to report that their parents talked to them about money. In North American and British studies, it appears that the educational level of the respondent has little impact on the etiology of attitudes towards money. Does this imply that the educational process in both countries is irrelevant in creating attitudes toward money. Baily / Lowen (1992b) found that age was one of the important factors explaining worry about finances in general in the U. S. but not in Great Britain. Younger people worried more about money in general in the U. S.

Lindgren (1980) suggested that our attitudes and feelings surrounding money have integrated our lives and motivated our behavior in subtle ways. Wilhelm / Varcoe (1991) found that money attitudes influence assessment of our economic well-being. They reported money inadequacy and money effortability were an important money attitudes for both females and males in predicting both assessment of financial satisfaction and financial progress. For females, the attitude of money power/spending was another significant contributor in predicting financial satisfaction.

**Attitudes toward Credit**

Although credit is an important feature of modern living, a limited number of studies have addressed this topic; there is a dearth of empirical material and only a limited amount of relevant theoretical and clinical information on credit attitudes and beliefs particularly among people who have experienced failure in handling of credit. Attitudes toward credit among debtors in bankruptcy were reported by Mathews (1969) and Hira (1979). Several items were used to identify debtors' attitudes toward credit availability, responsibility of credit grantors and the responsibility of borrowers. However the predictors of differences in attitudes among respondents were not explored. These studies were descriptive in nature.

Among the studies that focused on attitudes towards credit among general population, no cross cultural comparisons were made. These studies concluded that people with more favorable attitudes towards credit cards use them more than those people with less favorable attitudes (Adcock et.al. 1977; Awh / Waters 1974; Crawl 1981; Durkin 1975; Hoerman 1977; Mathews / Slocum 1969 1972; Shay 1971). Upper income consumers hold more favorable attitudes towards credit than do lower income consumers (Mandell 1972; Mathews / Slocum 1972; 1970; Tippett 1971). Younger consumers have more positive attitudes towards credit card use than do older consumers (Awh / Waters 1974; Mandell 1972 1973). A British study (PAS 1987) also reported that younger people have
more positive attitudes toward credit, they saw credit as a 'necessity' to have things they wanted but could not afford. Mandell (1972, 1973) found a positive relationship between education of the consumer and approval of the use of credit.

Dane Hira (1990) concluded that household financial management practices, in particular credit card practices, are important in the determination of financial status of households. Increasingly, consumer transactions involve with credit cards. As a result it is possible that households with similar resources can have different financial statuses depending upon their credit card practices.

Cause and effects of bankruptcies

Commonly identified factors contributing to the increase in bankruptcy filings include: down turn in the economy, consumers overextending their credit obligations, lawyer advertising, reduction in the "stigma of going bankrupt", and the pro-debtor changes in the bankruptcy law (Warren 1987). The study conducted by Sullivan/Worden (1990) provided useful insights into the legal factors and credit market conditions that determine the economic incentives associated with personal bankruptcy. Further research into the societal benefits and costs associated with allowing non business debtors to have a choice in bankruptcy is much needed.

In U.S. a rough estimate of annual losses by the creditors in personal bankruptcy cases suggests that lenders are losing up to $15 billion per year on loans that are discharged as part of the personal bankruptcy filings. Similarly, personal bankruptcy filings cost the bank card industry $1.75 billion in 1989. Of this amount, $650 million were considered fraudulent or abusive (Financial Insights, Volume 2, No. 3, July 1991, p. 7). In Canada, it was estimated that losses from bankruptcies cost Canadian creditors and customers $5 billion (Clare 1990:382). These losses are borne by all borrowers as they pay higher interest charges on loans and by lenders themselves, or their shareholders, in the form of losses of equity.

Bankruptcy should be rehabilitative of and reflect compassion for debtors and the consumers of credit industry. The significant amount of bad debts that the consumer debt industry incurs each year is not only borne primarily by the industry's shareholders but also is passed on to all consumers. Luckett (1988) concluded that in the long run the losses from discharged debts are transmitted to all other borrowers in the form of more expensive credit or reduced availability of credit. Disruption that serious financial stress brings to individual lives is perhaps the major consequence of bankruptcy, and should be an important concern for the social scientists and legislators.

Limited studies have focused on evaluation of bankruptcy process or determining the impact of bankruptcy experience on social and economic aspects of bankrupts' life (Mathews 1969; Hira 1980; Hira/Mugenda 1987).

Methodology

Theoretical Model

Economic, psychological and sociological frameworks can be applied to explain consumer credit behavior. Each of the framework has its strengths and weaknesses as it applies to the credit behavior. Researchers have also applied household management systems theory to analyze individuals' money management behavior in general and credit management behavior in specific. However, the work is limited and cross cultural applications have not been made.

Economic theory has most frequently provided the starting point for an understanding of the financial behavior of the family and it assumes that all individuals behave rationally. It can be assumed that debtors make a rational decision when filing for bankruptcy. They maximize utility (satisfaction) by filing bankruptcy when they have large debt burdens and limited resources in the form of current income or assets to pay for debt obligations. Bankruptcy allows them to solve their debt problems and keep their assets as allowed under bankruptcy exemptions. Hence one can conclude that they maximize utility by filing for bankruptcy.

An appropriate framework for examining debtors' perception of the impact of bankruptcy and satisfaction with bankruptcy is provided by resource management theory forwarded by Deacon/Firebaugh (1981). Briefly this theory assumes that resource management output (satisfaction/
financial status) is a function of not only inputs-resources/demands, (such as socioeconomic characteristics), but also of throughputs — that is knowledge, skills, management practices (managerial subsystem), and values, attitudes and beliefs, and interaction of family members among themselves and with outside resource people (their personal subsystem). Financial management knowledge and attitudes vary by stage of the family life cycle. It is assumed that impact of bankruptcy and satisfaction with bankruptcy will differ among petitioners based on their sociodemographic characteristics and their attitudes towards credit.

Cultural values have an important effect on an individual's value system. Baily/Lown (1992b) suggested that cross cultural research studies of attitudes towards money should begin with societies and nations that appear to be similar in cultural values and attitudes rather than widely disparate. These societies and the nations should share a common language to avoid problems in translation of previous research articles, measurement articles, or findings of future research. They should also have corresponding economic systems, such as market capitalism, and preferably a close historical and international trading relationships (Baily/Lown 1992b). Three countries included in this study (U. S. Scotland, and Canada) meet these criteria.

Research objectives

The overall objective of the study is to determine factors influencing the attitudes towards credit, effect of bankruptcy on debtors' lives, and satisfaction with bankruptcy process among debtors who had experienced bankruptcy in Canada, Scotland and the U. S.

Specific objectives of this study were to:

(1) model the relationships between socioeconomic characteristics and attitudes toward credit among bankruptcy petitioners and explore the differences in attitudes of bankrupts in Canada, Scotland and the United States.

(2) identify the differences in the perceived effects of bankruptcy on various aspects of bankrupts' lives in Canada, Scotland and the United States; and model the relationship between socioeconomic characteristic, attitudes towards credit and perceived effects of bankruptcy on petitioner's life.

(3) explore the differences in level of bankrupts' satisfaction with bankruptcy procedure in three countries, and model the relationship between socioeconomic characteristics, attitudes towards credit, perceived effect of bankruptcy on satisfaction with bankruptcy.

Sample

Data for this study were collected during 1987-1988 by examining bankruptcy records and through survey of bankrupts in Canada, Scotland and the United States. Bankruptcy information in the United States and Canada is a matter of public records and can be easily accessed. In Scotland, bankruptcy information is not a matter of public records, hence unavailable to a third party. Special arrangements with Scottish Association of Certified Accountants (who handle bankruptcies in Scotland) provided access to bankruptcy cases in Scotland. From the lists of bankruptcy filings during 1987-1988, a random sample of records (376 in Canada, 257 in Scotland and 360 in the United States) were selected. These randomly selected bankrupts were mailed a questionnaire in January 1988. The questionnaire was designed to provide information on causes and effects of bankruptcy including debtors' financial status after bankruptcy, attitudes towards debt, and satisfaction with bankruptcy process. Survey instrument used items that had been used in previous studies (Mathews 1969; Hira 1980; Hira/ Mugenda 1983).

The numbers of completed and usable questionnaires were small and varied greatly from one country to another (Canada 50, Scotland 92, and United States 108). Low response rates to the survey, (especially in Canada) is a serious limitation in generalizing results to all bankrupts. Furthermore, the data were only collected from one province (Manitoba in Canada), and one state (Iowa in the United States). Missing values for several variables used in this study further reduced the sample size for regression analysis. A large and nationally representative sample would have been very costly and beyond the available means. However, no other studies to the author's knowledge have focused on international comparisons on the topics of attitudes towards credit, perceived impact of
bankruptcy and satisfaction with bankruptcy process. Findings of this study will make unique contributions in building baseline data, testing validity of survey instruments and emphasizing issues for future research and educational programs at the international level.

Variables

Family resource management theory and review of literature provided basis for the selection of variables. The variables used in the study were grouped in three categories:

1. Inputs/demands: age, education, employment status, occupation, marital status, household size, monthly debt payment to monthly income ratio. Based on results of preliminary analysis, some of these variables were dropped from regression models.

2. Throughputs: Attitudes towards credit were measured by a nine-item, 5 point Likert type scale, varying from strongly agreed = 5, to strongly disagreed = 1. These items were borrowed from Lee Mathews' study, Causes of Bankruptcy (1969). Responses to these items were grouped to identify three types of bankrupts:
   (A) Blamers: those who blame others for their financial problems. "Blamer" index was developed by summing responses to the following items: (1) There is too much consumer credit for public good, (2) It is so easy to buy on credit that the average consumer is pushed into bankruptcy, (3) Creditors are to be blamed for increasing consumer bankruptcies, because they take legal action against those who are behind in payments, (4) Seller is responsible for selecting people to whom credit is given: if one cannot make debt payments then it's the creditor's fault. The Cronbach's alpha coefficient for reliability for this index was .55 for U. S., .58 for Canada, and .60 for Scotland.
   (B) Accepters: those who accept responsibility for their financial situation. "Accept" index was developed by summing responses to the following items: (1) Debtors are to be blamed for their debt problems because they should know how to better manage their money, (2) People should be blamed for their financial difficulties because they mismanage their credit, and (3) People should be blamed for their financial problems because they don't plan for hard times. The Cronbach's alpha coefficient for reliability of the index was .74 in Scotland, and .64 in both U. S. and Canada.

3. Outputs: Effect of bankruptcy and satisfaction with bankruptcy;
   (A) Perceived effect of bankruptcy was measured by responses to seven items. Respondents were asked, "How did going through the bankruptcy process affect your (1) marital situation? (2) financial situation? (3) social position? (4) family relationship? (5) health status? (6) employment situation? (7) borrowing for home and car?"
   Effect of bankruptcy index was developed by summing responses to these items. Responses were coded as: situation has improved (+1), neutral (0), and become worse (-1). The score on impact of bankruptcy variable could vary from a maximum of +7 to a minimum of -7. Cronbach’s alpha coefficient for reliability was very high for Canadian data (.88), followed by U. S. (.70), and Scotland (.58).
   (B) Satisfaction with bankruptcy: responses to the question "How satisfied were you with the bankruptcy process", were measured on a 5 point Likert type scale; responses were coded as "very satisfied" (5) to "very dissatisfied" (1).

Analysis and Results

Data were analyzed using frequency analysis for preparation of descriptive information including frequencies, proportions and mean statistics. Correlation analysis was used to identify relationship among all variables and regression analysis was used to identify predictor variables.

Sociodemographic profile

Among the individuals filing for bankruptcy, a variety of personal and economic characteristics were observed. However as a group, they tend to
represent a population group with the following characteristics: lower to lower middle income, engaged in skilled to semi skilled professions, employed, renters, males, 12 years of education, married and three member household. Noticeable differences in these characteristics were observed among the three countries. For example proportion of females was highest in Canada (33%) as compared to Scotland (28%) and U.S. (16%). Only in United States were joint petitions by husband and wife filed.

Differences in marital status were also noticeable; proportion of divorced/separated/widowed was highest in Canada and proportion of married was highest among Scottish debtors. Average household sizes were slightly larger in Scotland (mean = 4) as compared to Canada and the U.S. (mean = 3). Mean years of schooling was highest among U.S. debtors (13 years) as compared to 12 years in Canada and 11 years in Scotland. Largest proportion of U.S. debtors (64%) as compared to Canadian (56%) and Scottish debtors (44%) were employed. Similarly proportion of respondents in professional and managerial employment category was highest in the United States (23%) followed by 19% in Scotland and 14% Canada (Hira 1992).

Debt-to-income ratio: Debtors in bankruptcy have high debt-to-income ratios that sharply divide them from the rest of the population. In this study, the ratio between monthly income and monthly debt payment was quite high among Canadian (.48) and American debtors (.48) even after bankruptcy. They were spending close to half of their income to make debt payments. This is much higher than the .20 ratio suggested by the text books in personal finance area. However, for Scottish debtors the debt to income ratio was .10, indicating on an average only 10% of their monthly income was being used to make monthly debt payment.

**Attitudes toward credit**

Attitudes were measured by responses to nine different items as described in methodology section of this paper. Approximately half of the respondents in U.S. (48%) and Canada (50%) agreed or strongly agreed that "one should enjoy good life now"; however only one third of Scottish respondents (32%) agreed with this statement (see Table 2a).
Table 2a:
Attitudes toward borrowing and lending (blames others)

<table>
<thead>
<tr>
<th>Attitudes</th>
<th>U.S.A. n=108</th>
<th>Canada n=50</th>
<th>Scotland n=92</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>D  N  A</td>
<td>D  N  A</td>
<td>D  N  A</td>
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<tr>
<td></td>
<td>%  %  %</td>
<td>%  %  %</td>
<td>%  %  %</td>
</tr>
<tr>
<td>1. People should not be blamed for financial problems due to bad luck.</td>
<td>26  23  49</td>
<td>30  14  54</td>
<td>24  17  51*</td>
</tr>
<tr>
<td>2. There is too much consumer credit for the public good.</td>
<td>13  19  67</td>
<td>6  16  78</td>
<td>4  10  80</td>
</tr>
<tr>
<td>3. Creditors should use good judgement before extending credit - if debtor defaults, it is the creditor’s fault.</td>
<td>68  17  14</td>
<td>64  26  10</td>
<td>39  13  38</td>
</tr>
<tr>
<td>4. Due to the ease of borrowing, the consumer is pushed into bankruptcy.</td>
<td>56  9  43</td>
<td>38  14  46</td>
<td>26  11  56</td>
</tr>
<tr>
<td>5. Creditors are to be blamed for increase in bankruptcies, because they take legal action against people who are behind.</td>
<td>50  23  27</td>
<td>46  26  28</td>
<td>20  21  53</td>
</tr>
<tr>
<td>6. One should enjoy the good life now.</td>
<td>22  30  48</td>
<td>20  30  50</td>
<td>41  15  32</td>
</tr>
</tbody>
</table>

D = disagree and strongly disagree, N = neutral, A = agree and strongly agree
* may not add up to 100% due to missing value

Table 2b
Attitudes toward borrowing and lending (accepts responsibility)

<table>
<thead>
<tr>
<th>Attitudes</th>
<th>U.S.A. n=108</th>
<th>Canada n=50</th>
<th>Scotland n=92</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>D  N  A</td>
<td>D  N  A</td>
<td>D  N  A</td>
</tr>
<tr>
<td></td>
<td>%  %  %</td>
<td>%  %  %</td>
<td>%  %  %</td>
</tr>
<tr>
<td>1. Debtors are to be blamed for their debt problems, because they should know how to better manage their money.</td>
<td>24  28  47</td>
<td>26  24  50</td>
<td>25  7  59*</td>
</tr>
<tr>
<td>2. People should be blamed for their financial problems, because they mismanage their credit.</td>
<td>40  19  39</td>
<td>48  14  34</td>
<td>26  15  50</td>
</tr>
<tr>
<td>3. People should be blamed for their financial problems, because they don't plan for hard times</td>
<td>45  25  26</td>
<td>34  14  46</td>
<td>26  20  48</td>
</tr>
</tbody>
</table>

D = disagree and strongly disagree, N = neutral, A = agree and strongly agree
* may not add up to 100% due to missing value
Almost a similar proportion of respondents in all three countries (Canada, 54%; Scotland, 51%; and U.S. 49%) agreed or strongly agreed that people should not be blamed for financial problems due to bad luck. Less than half of Canadian (46%) and U.S. (43%) and slightly over half of the Scottish debtors (56%) agreed that due to ease of borrowing the consumer is pushed into bankruptcy. Similarly, a much higher proportion of debtors in Scotland (53%) than in Canada (28%) or U.S. (27%) agreed that creditors are to be blamed for increase in bankruptcies, because they take legal actions against people who are behind in payments (Table 2a). According to Hira (1989), legal actions taken by creditor was identified as one of the major factors in filing for bankruptcy (48% in Canada, 44% in Scotland and 28% in U.S.). It appears that Canadian respondents do not believe that in general increase in bankruptcies is caused by collection actions taken by creditors. However, majority felt their own bankruptcy was caused by creditors' collection actions.

Larger proportion of Scottish (59%) as compared to Canadian (50%) and American (47%) debtors agreed that debtors are to be blamed for their debt problems, because they should know how to better manage their money. Similarly, larger proportion of Scottish (50%) than American (39%) or Canadian (34%) respondents agreed that, people should be blamed for their financial problems, because they mismanage credit. Similar proportion of Canadian (46%) and Scottish (48%) but smaller proportion of the U.S. (26%) debtors agreed that people should be blamed for their financial problems, because they do not plan for hard times (Table 2b).

Attitude indexes: For blame index the mean score (14.6) was highest in Scotland, followed by Canada (12.3) and United States (11.6). It seems that Scottish respondents were more apt to blame creditors for their financial problems than American or Canadian debtors. The mean score on accept index was also slightly higher among Scottish debtors (10.2), followed by Canadian (9.4) and American debtors (8.9). Larger proportion of Scots than Americans or Canadians believed that creditors caused their financial problems. However, overall mean scores on accept index were lower than blame index in all three countries (see Table 1).
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<table>
<thead>
<tr>
<th>Various aspects</th>
<th>Scotland</th>
<th>Canada</th>
<th>U.S.A.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>n=50</td>
<td>n=92</td>
<td>n=108</td>
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<tr>
<td></td>
<td>W</td>
<td>S</td>
<td>B</td>
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<tr>
<td>Effect of bankruptcy</td>
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<td>Financial situation</td>
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<td>Social position</td>
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<td>Health status</td>
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<td>Employment situation</td>
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<tr>
<td>Borrowing for home/car</td>
<td>14</td>
<td>47</td>
<td>26</td>
</tr>
</tbody>
</table>

W = worse, S = same, B = better. * May not add up to 100% due to missing values.
Effects of bankruptcy on bankruptcy

Table 3 provides information on effect of bankruptcy on various aspects of petitioner's life. More positive effects of bankruptcy were reported by the U. S. and Canadian than Scottish debtors. A large majority of debtors in Canada and U. S. indicated that filing bankruptcy improved their financial situation. They also indicated that filing for bankruptcy had a positive influence on their health status, family relations and employment status. Generally, debtors indicated that filing for bankruptcy had a negative effect on their social position and future borrowing. More negative effects were mentioned by Scottish debtors.

Effect of bankruptcy Index: Mean score for the effect of bankruptcy index was positive in both Canada and United States; however, it was twice as high in Canada (+2) than in the United States (+1). On an average Scottish debtors reported negative impact of bankruptcy with the average score being -1.4.

Satisfaction with bankruptcy

Generally speaking, most U. S. and Canadian respondents were either satisfied (37%, 33%) or very satisfied (37%, 44%) with bankruptcy process. In Scotland, however, only a total of 30% were satisfied, very satisfied. Mean score (4) on satisfaction index was same among American and Canadian bankrupts and was higher than mean score (2.9) among Scottish debtors. Since most of the Canadian and American respondents reported positive effects of bankruptcy, and most negative effects of bankruptcy were reported by Scottish debtors, these results are not surprising.

Hira (1989) reported that generally speaking debtors in bankruptcy did not feel that they had complete information about the bankruptcy process or its long term legal and financial consequences. It appears many debtors in Scotland were caught by surprise (involuntary bankruptcy cases), and in North America debtors filed bankruptcy because it appeared as an easy solution to their debt problem.

Predictors of petitioners’ attitudes towards credit (differences among countries)

Table 4 presents the results of regression analysis for all three countries. Regression model for Canada shows that none of the variables in the model were significant in predicting the attitude "Blames others" for credit problems and bankruptcy. Only 3% (R² = .03) of variation in the "Blame" index was explained by the variables in the model. Relatively low R² may be due to the heterogeneity of the sample in the study. Bankrupts in the sample may represent different types of people, and only bankruptcy was the common characteristic among them. It is also possible that variables in the model were not best fitted for Canadian bankrupts. Other variables not included in the model explain the variation in attitudes.

Table 4
Predictors of blames others

<table>
<thead>
<tr>
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<th>Canada Beta</th>
<th>Scotland Beta</th>
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<tr>
<td>Age</td>
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<td>.138</td>
<td>.431**</td>
</tr>
<tr>
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<td>-.079</td>
<td>.172</td>
<td>.001</td>
</tr>
<tr>
<td>Debt ratio</td>
<td>.074</td>
<td>-.228</td>
<td>-.120</td>
</tr>
<tr>
<td>Enjoy life</td>
<td>-.175</td>
<td>.374*</td>
<td>.167</td>
</tr>
<tr>
<td>R²</td>
<td>.03</td>
<td>.11</td>
<td>.19</td>
</tr>
<tr>
<td>F</td>
<td>.19</td>
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</tr>
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</table>

* p < .1  ** p < .05  *** p < .01

When the same regression model was applied to Scotland, the predictability of the model increased. All variables in the model explained 11% of the variation in score on attitude index; however, R² .11 was not statistically significant. Only one of the variables in the model "enjoy life now" was statistically significant at .05 level. This indicates that more of the respondents who agreed with the statement, "one should enjoy good life now," were more likely to blame others for their credit problems as compared to those who did not agree with this statement. This statement is
Effects of bankruptcy on bankruptcy

Table 3 provides information on effect of bankruptcy on various aspects of petitioner's life. More positive effects of bankruptcy were reported by the U. S. and Canadian than Scottish debtors. A large majority of debtors in Canada and U. S. indicated that filing bankruptcy improved their financial situation. They also indicated that filing for bankruptcy had a positive influence on their health status, family relations and employment status. Generally, debtors indicated that filing for bankruptcy had a negative effect on their social position and future borrowing. More negative effects were mentioned by Scottish debtors.

Effect of bankruptcy Index: Mean score for the effect of bankruptcy index was positive in both Canada and United States; however, it was twice as high in Canada (+2) than in the United States (+1). On an average Scottish debtors reported negative impact of bankruptcy with the average score being -1.4.

Satisfaction with bankruptcy

Generally speaking, most U. S. and Canadian respondents were either satisfied (37%, 33%) or very satisfied (37%, 44%) with bankruptcy process. In Scotland, however, only a total of 30% were satisfied, very satisfied. Mean score (4) on satisfaction index was same among American and Canadian bankrupts and was higher than mean score (2.9) among Scottish debtors. Since most of the Canadian and American respondents reported positive effects of bankruptcy, and most negative effects of bankruptcy were reported by Scottish debtors, these results are not surprising.

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<td>Enjoy life</td>
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<td>R²</td>
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indicative of the personality who does not like to delay gratification. It is
assumed this type of person will be more likely to overextend him/herself
to the point where debt burden becomes a problem and the person has to
take bankruptcy to solve the problem.

As applied to U. S. data, the model was most predictive of the blaming
attitudes. All variables in the model explained 19% of the variation in
attitude ($R^2 = .19$, $p < .10$ level). Age, was positively and significantly
related to the blamer index ($p < .01$ level). Based on these results it can
be concluded that older petitioners were more likely than younger
petitioners to blame others for their credit problems. Even though age was
not a statistically significant predictor in other two countries, it was
positively related to the index in both Canada and Scotland. The positive
relationship could be due to the fact that older consumers in this study may
have had difficulty in understanding the legal implications of the new
credit products and hence were more apt to blame others for their debt
problems.

Table 5

Predictors of accepts responsibility

<table>
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<th>Independent Variables</th>
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<tr>
<td>F</td>
<td>.82</td>
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<td>4.2**</td>
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</table>

* $p < .1$  ** $p < .05$  *** $p < .01$

Table 5 shows the results of regression model indicating predictors of
accepting attitudes. Results differ greatly by country. In Canada none of
the variables in the model by itself were statistically significant in
explaining the variation in this attitude. However, all the variables
together explained 15% of the variation in score on attitude accepts index
($R^2 = .15$).

When applied to Scottish data, the model was a better predictor of
accepting attitudes. It explained 27% ($R^2 = .27$, $p < .05$) of the variation in
the score of accept index. It may be concluded that younger bankrupts,
those from larger households and those who had higher monthly debt-to-
income ratio, were more accepting of the statements that reflected debtors
are to be blamed for their problems, and that they get into trouble because
they either do not plan for hard times or they do not know how to manage
their finances. Of the four variables in the model, only household size was
statistically significant at .01 level and was positively related to the accept
index. Respondents who represented larger households were more
accepting of responsibility for their debt problems as compared to those
who represented smaller households. Although not statistically significant
this relationship was also positive among American bankrupts, but it was
negative among Canadians. In Canada bankrupts who represented smaller
households were more likely than those from larger households to accept
responsibility for their debt problems. This model was most effective in
explaining variation in scores on accept index among Americans. All the
variable in the model explained 33 percent of variation ($R^2 = .33$, $p < .011$). All the variables in the model except one were positively related to
the dependent variable. However only one of the variable age, was
statistically significant ($p < .01$) in explaining variation in scores on this
attitude. Based on these results it may be concluded that in United States
older respondents were more likely to agree that debtors are responsible
for their own financial problems.

Factors determining the effect of bankruptcy on debtors' lives (differences
among countries)

Table 6 presents results of regression model predicting determinants of the
effect of bankruptcy. The independent variables included age, household
size, debt-to-income ratio, and index "accepts responsibility." To keep the
number of independent variables small, it was decided to include only one
of the attitude indexes among the variables predicting the effect of
bankruptcy and satisfaction with bankruptcy.
Table 6
Predictors of effects of bankruptcy process

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Canada Beta</th>
<th>Scotland Beta</th>
<th>USA Beta</th>
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</thead>
<tbody>
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<td>-.254</td>
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<td>HH size</td>
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<td>Debt ratio</td>
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<td>.465***</td>
<td>-.222</td>
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<td>Accept responsibility</td>
<td>-.287</td>
<td>-.412**</td>
<td>.258</td>
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<td>R²</td>
<td>.22</td>
<td>.38</td>
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<tr>
<td>F</td>
<td>1.34*</td>
<td>4.5**</td>
<td>2.3*</td>
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</table>

None of the independent variables included in the model was a statistically significant predictor of impact of bankruptcy for Canadian bankrupts. However, all the variables together explained 22% of the variation in effect of bankruptcy (R² .22). Similarly, none of the variables in the model as applied to the U. S. was statistically significant in predicting effects of bankruptcy among American bankrupts. However, together these variables explained 19% of variation in the dependent variable (R² .19, p < .1).

This model was the best predictor of the effect of bankruptcy among Scottish debtors. Three of the four independent variables were statistically significant in predicting the effect of bankruptcy. More younger than older bankrupts indicated positive effects of bankruptcy. Bankrupts with higher debt-to-income ratio than with low debt-to-income ratio were more likely to indicate positive effects of bankruptcy. Bankrupts who believed in debtors being responsible for their financial problems were less likely to report positive effects of bankruptcy. Household size, though not statistically significant, was positively related to the dependent variable. The direction of this relationship was consistent in all three countries. R² .38 (p < .01) indicates that 38% of the variation in the model is explained by the variables included in the model.

Significance of the variables in explaining the effect of bankruptcy varied greatly among three countries. It is possible that bankrupts in different countries have very little in common other than being in bankruptcy. On the other hand it is also possible that other important variables that may have been consistent among countries were left out. Weak results in Canada could also be due to the small size of the sample.

Determinants of level of satisfaction with bankruptcy process (differences among countries)

As seen in Table 7, factors that influence the level of satisfaction with bankruptcy vary from one country to another. Age, was strong a predictor of satisfaction only in Canada (beta = -.334, though not statistically significant). However, the direction of relationship was negative in both U. S. and Canada and positive in Scotland. These results indicate that younger debtors in Canada and U. S. were more likely than older debtors to be satisfied with bankruptcy, whereas in Scotland more older debtors were likely to be satisfied with bankruptcy process.

Table 7
Predictors of satisfaction with bankruptcy process

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Canada Beta</th>
<th>Scotland Beta</th>
<th>USA Beta</th>
</tr>
</thead>
<tbody>
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<td>-.334</td>
<td>.019</td>
<td>-.005</td>
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<td>HH size</td>
<td>.049</td>
<td>.217</td>
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<td>Debt ratio</td>
<td>-.258</td>
<td>-.218</td>
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<td>Accept responsibility</td>
<td>.244</td>
<td>.185</td>
<td>.185</td>
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<tr>
<td>Effect of bankruptcy</td>
<td>.236</td>
<td>.555**</td>
<td>.332**</td>
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<tr>
<td>R²</td>
<td>.30</td>
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<tr>
<td>F</td>
<td>1.54*</td>
<td>2.14*</td>
<td>1.48</td>
</tr>
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</table>

* p < .1  ** p < .05  *** p < .01
Relationship between Household size and satisfaction with bankruptcy also varied among countries. In three countries the relationship was not statistically significant. However, it was strongest in Scotland. The direction of relationship also differed among countries; it was positive in Canada and Scotland and negative in the U. S.

Debt-to-income ratio showed a strong relationship to satisfaction with bankruptcy in all three countries (though not statically significant in any country). It appears in Canada and Scotland (as opposed to the U. S.) that bankrupts who reported lower debt-to-income ratio after bankruptcy were more likely to be satisfied with the bankruptcy process. In all three countries "Accept" index was positively related to satisfaction with bankruptcy process. It may be concluded that those respondents who agreed that "debtors are responsible for their financial problems" were more likely to be satisfied with bankruptcy process. The variable "effect of bankruptcy" had a strong and positive relationship with the level of satisfaction in all three countries. The relationship was statistically significant in Scotland and the United States. It appears regardless of the sociodemographic characteristics and attitudes towards credit, debtors who reported positive effects of bankruptcy as compared to those who reported negative effects, were more likely to be satisfied with the bankruptcy process.

Variables included in this model explained fairly high level of variation in level of satisfaction among three countries: Scotland ($R^2 = .30$), followed by Canada ($R^2 = .28$), and United States ($R^2 = .16$). The higher $R^2$ for Scotland may reflect the homogeneity of the sample used. It is also possible that the linear model and/or the independent variables fit the Scottish sample better. In United States the model had lower $R^2$; it appears that the model might be mis-specified for U. S. data. That is the variables are omitted that should have been included for example differences in culture, legal environment, and status of financial product and services industry.

Conclusion

Knowledge about the factors affecting the attitudes towards credit, perceived effect of bankruptcy and satisfaction with the bankruptcy procedures is useful for many groups: debtors contemplating bankruptcy, lawyers and credit counselors who are consulted by consumers about filing bankruptcy, and educators who prepare educational materials and financial counseling programs for formal and informal settings.

This study aimed at presenting some explanations of the relationships and underline the significance of research in the area. An obvious research implication is the need to further investigate factors (social, economic, psychological, and legal) that lead debtors into bankruptcy in the first place and then explore the impact of bankruptcy on various aspects of debtors lives. This research is only a beginning of what could be done in the area of consumer credit and consumer bankruptcy. Much more investigation into this topic is necessary.

Since this was an explanatory study, its results can be stated more in terms of questions it has raised rather than in answers it has proposed. Is the bankruptcy system achieving the goals it was supposed to? Who is being served by the current system? Is the current bankruptcy system appropriate for the constantly evolving credit environment? Are the debtors with serious financial problems being rehabilitated through bankruptcy process? Does the "fresh start" enable the debtors to start over with the knowledge and skill that ensures the fresh start to last long time? Should different (other than bankruptcy) solutions (financial counseling, money management education, orderly repayment of debt), more appropriate for 21st century credit environment be explored to solve problems of overextended debtor.

This study focused on the attitudes of individuals in bankruptcy. It now becomes necessary to study these values among other members of the society (non bankrupts) to provide the comparison and then to determine whether there are any significant differences. In addition studies comparing the impact of financial problems on debtors' lives among those who use credit counseling services to solve their debt problems would provide much needed information on the effectiveness of the other available solutions to serious debt problems. Similarly, studies that include samples of debtors who used other options within the bankruptcy system.
have important economic and social consequences. To effectively deal with the issue of increased consumer indebtedness in today's society, policies effecting lending practices, and bankruptcy procedures must be assessed, and underlying causes of over-indebtedness must be explored. Given the large scale impersonal financial markets, individual debtors of such businesses feel no internalized obligation that they might in the sense feel if the creditor was a natural person and would be disappointed or have his/her feelings hurt at non payment. Better monitoring of borrowers' financial circumstances and restriction of credit for those at greatest risk may be an avenue to explore.

There is need for better understanding about attitudes towards money and credit. Cross cultural applications of research results for the development of educational materials, policy implications and credit regulations are needed. In addition to its potential usefulness for future research relating credit attitudes to household economic well-being, the ability to understand and identify problematic attitudes towards use and availability of credit would be helpful for credit counselors and bankruptcy administrators as they work with debtors to recommend options to solve their debt problems. Given the nature of current data available in bankruptcy records, it is not possible to assess the basis on which selections between different options were made and what kind of consequences these choices had for the debtors and creditors. If bankruptcy acts (in countries in the study) were to be revised in the future it is important that information to assess the effectiveness of current bankruptcy systems be available.

The information currently available in bankruptcy files does not permit an accurate assessment of petitioner socioeconomic characteristics and attitudes towards credit. It is not possible to determine what were the causes of indebtedness, how the decision to file for bankruptcy was arrived at, what other options were explored, and how long the problems had existed before it was decided to file for bankruptcy. Similarly the current procedures do not allow to collect information on the effect of bankruptcy on petitioners.

Although the importance of consumer information and education in this field should not be underestimated, it is also clear that the effectiveness of such efforts will, to a certain extent, depend on whether such measures are oriented towards the specific problem areas and target population groups.
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Although the importance of consumer information and education in this field should not be underestimated, it is also clear that the effectiveness of such efforts will, to a certain extent, depend on whether such measures are oriented towards the specific problem areas and target population groups.
A closer monitoring of the consumer indebtedness, of its social background and consequences and an exploration of links with the types and amounts of credit would, in the future, probably merit some attention. With the international character of credit and other financial instruments and the future increase in the numbers of consumers using the credit instruments, emphasis on cross cultural comparisons is increasingly important. Just like the products and services are being marketed across borders, the methods to prevent and deal with potential problems for the consumers also need to be viewed in the light of an international setting.

Role of Money Management Education and financial counseling in consumer indebtedness and insolvency

Maintaining financial stability, being able to adequately meet one’s financial obligations with one’s available resources, require an acceptable degree of effective financial management. When some aspect of this process is lacking or neglected, problems can arise. When they are not corrected, they can become worse, with final consequences of financial failure and bankruptcy.

As found by Shepard (1984), credit is a significant factor in explaining financial failures among consumers. Problems can arise with the misuse of credit such as (a) loss of financial flexibility, (b) reduced future buying power, and (c) overspending. When credit is misused, it can result in loss of item purchased, a poor credit reputation and unmanageable degree of debt eventually leading to financial crisis and financial failure.

Individuals who misuse credit availability could benefit from counseling and education on financial management. This would mean learning what level of debt one can manage in accordance to one’s income and potential income, and how to use credit properly to aid in financial planning without allowing it to become detrimental to one’s financial stability. As shown by Hira (1992) in most cases, problems of bankrupts may not stem from irresponsibility but from inexperience, they have lacked the opportunity to learn the skills essential to acting in a financially responsible manner.

Who is responsible for providing money management education? At what grade level would this education take place? Is it the responsibility of government, educational institutions, or of parents? Is it the responsibility of credit grantors? Should they provide funding for the preparation of educational materials, group education and training session of their customers? It is obvious that there is a tremendous need for education in the area of consumer credit and it is beyond what bankruptcy system and credit counseling agencies can provide.

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References


### Correlation Among Selected Variables

**Canada**

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<thead>
<tr>
<th>variable</th>
<th>ENJOY LIFE NOW</th>
<th>EFFECT</th>
<th>SATISFACTION</th>
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*P ≤ .01
CORRELATION AMONG SELECTED VARIABLES
SCOTLAND

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CORRELATION AMONG SELECTED VARIABLES
UNITED STATES

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