

EFFECT OF FINANCIAL LITERACY ON PERSONAL FINANCIAL
MANAGEMENT PRACTICES: A CASE STUDY OF EMPLOYEES IN FINANCE
AND BANKING INSTITUTIONS

By

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DECLARATION


This management project is my original work and has not been presented for a degree in any other university



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This management research project has been submitted for examination with my approval as University supervisor



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DEDICATION

TO ALL KENYANS STRIVING TO GAIN FINANCIAL SUCCESS
THROUGH FINANCIAL EDUCATION LITERACY

ABSTRACT

Financial education is growing in leaps and bounds in the western world because of the financial intricacies that have increased in the world economy. Africa is not exempted as it is part of the global village. Financial products have increased faster than the knowledge required to acquire these products. The global financial crisis witnessed in 2008/9 testifies to this fact. Fundamentally, lack of financial literacy lured entrants into the mortgages market that in the long run proved costly when interest rates fluctuated to their detriment. The change in the financial scenario put many families in jeopardy and many were declared bankrupt. This research sought to determine whether financial literacy had any effect on personal financial management practice.

The population of the study comprised all employees perceived to have training in finance from financial institutions listed on the Nairobi Stock Exchange. These employees are assumed to be financially literate by virtue of their training and nature of work. A second data set was collected from non-financial institutions to establish whether a difference exists between the two groups when it comes to personal financial management practices. Simple random sampling technique was used to select respondents from each institution. A self administered questionnaire was delivered to the respondents and collected after completion. Data was analyzed using the Statistical Packages for social Sciences (SPSS ver 12). The Students t-test was used to examine the data with the objective of determining whether there is a significant relationship between financial education (profession) and personal financial management practices.

This research shows that working in a finance and investment environment does not make one have drastically different financial behaviors compared to those who do not. The study reveals that those who are financially educated and those who are not exhibit relatively the same personal financial management patterns albeit in different magnitudes. For example those who are financially educated registered a mean of 3.70 compared to 3.60 for those who are not financially educated on the issue of saving/investing out of each payment.

Another fact observed from the study, is that those presumed to be financially educated cluster around a few financial management practices, a trend similar to those who are not financially literate. They do not give the same prominence to other financial practices that may contribute to their financial well being.

In conclusion, the results indicate that financial literacy has a positive influence on personal financial practices. The study further observes that there is no significant difference between those who are financially literate and those who are not.

TABLE OF CONTENTS

Declaration	.....	i
Acknowledgements	.....	ii
Dedication	.....	iii
Abstract	.....	vi
1.0	CHAPTER ONE: INTRODUCTION.....	1
1.1	Background of the study.....	1
1.2	Statement of the Problem.....	7
1.3	Objectives of the study.....	9
1.4	Significance of the Study.....	9
2.0	CHAPTER TWO: LITERATURE REVIEW.....	11
2.1	Introduction	11
2.2	The Concept of Financial Literacy and Education	11
2.3	Consequences of Financial Illiteracy.....	17
2.4	Financial Management Practices.....	19
2.6	Conclusion	25
3.0	CHAPTER THREE: RESEARCH METHODOLOGY.....	26
3.1	Introduction	26
3.2	Research design.....	26
3.3	Population.....	26
3.4	Sample	27
3.5	Data collection.....	27
3.6	Data analysis	28
4.0	CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS.....	30
4.1	Introduction	30
4.2	Data Analysis.....	30
4.3	Results and Discussions.....	35

4.4	Conclusions	42
5.0	CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	43
5.1	Introduction	43
5.2	Summary of Findings and Conclusions.....	43
5.3	Limitations	45
5.4	Recommendations.....	46
<i>List of Tables</i>		
Table 1:	Distribution (%) of Respondents by Sex and Age	31
Table 2:	Distribution (%) of Respondents by Income Categories	35
Table 3:	Saving Practices of Respondents by Category	36
Table 4:	Expenditure Practices of Respondents by Category	37
Table 5:	Debt Management Practices of Respondents by Category	38
Table 6:	Investment Management Practices of Respondents by Category...	39
Table 7:	Money Management Practices of Respondents by Category	40
Table 8:	Retirement Management Practice of Respondents by Category....	41
Table 9:	Unexpected Expenditure Management of Respondents by Category	42
Table 10:	Top Five Personal Financial Management of Respondents Practices ...	45
<i>List of Figures</i>		
Figure 1:	Percentage distribution of Respondents by Marital Status ...	32
Figure 2:	Percentage Distribution of Respondents by Profession	33
Figure 3:	Highest level of Education achieved	34
<i>References</i>	.....	52
<i>Annexe 1: Demographic Summary</i>	.....	48
<i>Annexe 2: Questionnaire</i>	.....	49

CHAPTER ONE

1.0

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The financial systems of the 21st Century have been growing with speed, sophistication and becoming more complex (Hilgert & Hogarth, 2002) world over. The economic and social environment in which people take financial decisions has changed – and this change is set to continue with the dynamic and ever changing technology. Financial products and services have multiplied along with technological and other means of marketing them (Greenspan, 2005).

People have to take increasing individual responsibility for their financial affairs unlike in the past when the governments provided basic necessities like education, provision of health care and even subsidies food on prices. This calls for skills that can be obtained through financial education. For example in Kenya the cost of education, even though the government introduced free primary and secondary education, the reality is that the parents still bear the burden of most requirements. The cost of healthcare is equally being borne by individuals rather than the government or other organizations (Vitt, L.A., Reichbach, G.M., Kent, J.L. & Siegenthaller, J.K, 2005).

With the ever increasing inflation in Kenya, large numbers of people especially low-wage, older and disadvantaged individuals are burdened by inadequate personal resources to meet pressing obligations. A Financial Access Survey revealed that 21 percent of Kenyans depend on transfers as their main source of income. Remittances within Kenya

were 52 percent while from the Diaspora it stood at 4.3 percent in 2009 from 2.8 percent in 2006 (Central Bank, 2009).

According to Odundo (2003) less than 5 percent of the total Kenyan population contributes towards social security fund. This means that majority of the population must have individual arrangement to make saving for their retirement. This calls for sound management of personal finances, referred to as financial literacy in this study. Financially literate consumers are those consumers who have the ability to make informed judgments and to take effective actions regarding the current and future use and management of their money (Basu, 2005:2).

Greenspan (2001) argued that as the market forces continue to expand the range of providers of financial services, consumers will have much more choices and flexibility in how they manage their financial matters. They will need to accumulate appropriate knowledge on how to use new technologies and on how to make financial decisions in an informed manner. The need for financial literacy has been prompted by the increasing complexity of financial products and the increasing responsibility on the part of individuals for their own financial security. Well informed, financially literate consumers are better placed to make sound decisions for their families and thus are in a position to increase their economic well-being (Greenspan, 2005). Financially secure families contribute to vital, thriving communities and thereby further foster community economic development (Hilgert & Hogarth, 2002).

According to Garman and Forgue (2000) financial success is the achievement of five lifetime objectives: pursuing maximum earnings and wealth; practicing efficient consumption,; finding life satisfaction; reaching financial security and accumulating wealth for retirement and an estate to leave to heirs. Garman and Forgue (2000) consider these objectives to be the underlying cornerstone for the financial management techniques or recommended practices that have been taught since time immemorial. Garman and Forgue (2000) say that it is not possible to achieve these objectives without sound financial knowledge. These can only be obtained through financial education that will ensure that the households are financially literate and equipped with the basic skills of personal financial management.

Financial problems resulting from poor personal financial management is known to affect individual productivity at the workplace. Garman, Leech and Grable (1996) found that employees in the United States were stressed about their poor financial behaviours that impacted negatively on their job productivity. Brown, B.B., Mounts, N., Lamborn, S.D., & Steinberg, L. (1993) found that many employees were suffering from stress as a result of money problems. They observed that money problem behaviors included: over-indebtedness, overspending, unwise use of credit, bad spending decisions, poor money management and inadequate money to make ends meet. As a result of these employee problems, many companies in the United States adopting financial education at work places aimed at equipping their employees with personal financial management skills (Brown et al., 1993).

Like any body of knowledge, financial literacy education is simultaneously basic and complex. It is also multi-layered, overlapping and inconsistently labeled. The personal financial education literature reflects this conflicted identification, sometimes by the authors themselves, who variously refer to their work as financial education (Storms, 1999), savings education (Blandin, 1998), personal finance employee education (Anderson, Grey and Kerbel, 1998), workplace financial education (Garman, 1998), consumer education (Hogarth, 1999), consumer finance protection education (Brassington, (1999), investor or investment education (Glass, 1999), money management education (Tucker, Jeanette and Frances, 1999), retirement savings education (Watson, 1998) and retirement education (Joo and Garman, 1998). Whatever its name, as Arnone, (1999) suggests, the bottom line of financial literacy education has to do with equipping individuals and families with the ability to negotiate money issues to make self-enhancing life choices.

In the “Financial Literacy 2000” Project, (Orley, 1994) a national effort was made to assess public patterns of financial knowledge and consumer confidence. A sample of 1000 adults was surveyed for the purpose of providing financial literacy profiles of the U.S. population for a subsequent responsive educational campaign to improve financial literacy. Cutler and Devlin (1996) conceived of financial literacy as comprising both knowledge and a confidence dimension.

With a mastery of the fundamentals of personal finance, the management of money becomes more purposeful and ordered. It can lead to increased financial security throughout all life stages, especially in later life. Published research results suggest there is much work to be done in the area of financial literacy education to achieve even a modest degree of mastery, and the data that has been gathered in this field study confirm such earlier research findings.

Across the decade of the 1990s to the present, the issue of financial education has arisen on the agendas of educators, community groups, businesses, government agencies and policy makers (Braunstein & Welch, 2002). This increased interest in financial education has been prompted by increased complexity of financial products and the increased responsibility on the part of individuals for their own financial security. Amid growing concerns about consumers,' financial literacy, the number and types of financial education programs have grown dramatically since the mid-1990s (Vitt et al., 2005)

Garman (1998) established that almost 40percent of employees have money challenges. Money challenges include practicing better money management to avoid overspending, making effective decisions on employee benefits, finding enough money to maximize retirement plan contributions and learning more about comprehensive financial planning. Muske and Winter (2001) pointed that to many people savings is not an easy task. According to them, even if the households had no payments to make, their money ended up being spent in things which were never budgeted for.

Financial Literacy is the ability to make informed judgments and to take effective actions regarding the current and future use and management of money (Basu, 2005:2). Financial literacy includes the ability to understand financial choices. For example the ability to compare offers before applying for a credit card, having a current and savings accounts, having a book keeping system, planning for the future like saving or investing for long term goals like education, home, vacation etc. Financial literacy also calls for wise spending. This means preparing budgets, tracking expenditures, paying bills on time, and ensuring that credit card balances are paid in full each month. Financial literacy affects financial decision making. Ignorance about basic financial concepts can be linked to lack of retirement planning, lack of participation in the stock market and poor borrowing behavior (Lusardi, 2008).

In this study, those who are financially literate are those perceived to have undergone some level of financial training such as bankers, accountants and auditors. Studies done in the United States by various researchers have shown that relatively few households implement recommended financial management practices. These practices may be used to define personal financial management. These include budgeting and cash flow management, account ownership, use of credit, savings behavior and asset accumulation (Davis & Carr, 1992).

Monyoncho (2007) clearly states that financial literacy is not a subject taught in schools. He further infers that issues of finance will not be automatically understood. Having

money alone does not mean that one is financially educated. Most of these financial matters are learnt through experience.

Kiyosaki (1998) reaffirms that financial literacy is the key to financial stability. This includes understanding simple and practical terms such as assets, liabilities, and income and expenditure statements. He states that the real tragedy in life is the lack of early financial education which has created risks faced by average middle class people.

1.2 STATEMENT OF THE PROBLEM

Individuals make decisions with regard to their personal finances on a daily basis, and even though these decisions are necessary for day-to-day survival, it can be a daunting task (Karlsson et al., 2004). Kidwell and Turrisi (2004) point out the strong link between the accumulation of personal debt and a distinct lack of skills in personal financial management. Many individuals and families do not have the knowledge or skills to handle basic, let alone complex, financial decisions (Alhabeeb, 1999; Klemme, 2002; and National Endowment for Financial Education, 2002).

According to Timmons and Spinelli (2007) the lack of skills in personal financial management could be viewed as a characteristic of most households. They point out that even highly educated individuals admit to feeling uncomfortable, intimidated and even terrified because of their lack of financial management expertise. This has resulted to increasing demand for information on personal finance. Research (Kim, 2000 and Joo,

1998) has shown that many adults lack the financial knowledge to make competent and effective financial choices.

The aim of this study is to determine whether those who are perceived to be trained in finance like accountants, bankers, auditors and financial analysts practice personal financial management compared to their counterparts perceived not to have any prior knowledge in finance. The level of financial literacy tends to vary according to education and income levels, but evidence shows that highly educated consumers with high incomes can just be as ignorant about financial issues as less educated lower income consumers. Although extensive researches have been done mostly in Europe and America on personal financial management practices, this area of research is fairly new in Kenya as the researcher is not aware of any related study on this topic that has been carried out on financial education literacy. There is therefore a knowledge gap on the role of financial education in personal financial management in Kenya. It is this gap the study seeks to fill by addressing the questions;

1. Do those perceived to be financially educated practice good personal financial behaviors?
2. What are the most practiced financial behaviors attributable to being financially literate?
3. Does training in finance translate into practicing good financial management behaviors?

1.3 OBJECTIVES OF THE STUDY

- 1) To determine the most widely practiced personal financial management behaviors.
- 2) To determine the relationship between financial literacy and personal financial management practices.

1.4 SIGNIFICANCE OF THE STUDY

Individuals

The study is expected to benefit individuals, who will get insight into the importance of financial literacy in regard with personal financial management practices. These include financial management practices such as budgeting and cash-flow management, credit management, savings, and asset accumulation. These practices will reduce their stress due to poor financial behaviors (Garman et al., 1996).

Government and Policy makers

This study will give insight into the government and its policy role especially in the Ministry of Finance and the Central Bank on the impact of financial literacy on personal financial management and overall savings policy. The Ministry of Education will also gain insight on the need of making financial education as part of the school curriculum. The result of the study will inform the ongoing financial sector reforms in the country.

Employers

Financial illiteracy is known to result in poor management of finances and in many cases to low employee work production. Employers will therefore see the need to introduce workplace financial education to enhance financial literacy in the workplace. Employees who have poor financial behaviors have their job productivity negatively impaired (Garman et al., 1996).

Academicians

To the academicians, the study will contribute to the existing body of knowledge of financial literacy in Kenya. It will also stimulate prospective researchers to replicate the study in other sectors of the economy.

CHAPTER TWO

2.0

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter presents an overview of previous work on related topics that provide the necessary background for the purpose of this research. The literature review concentrates on issues of financial education literacy and personal financial management practices. The literature review begins with coverage of concept and working definition of financial education literacy; elucidates the consequences of financial illiteracy and finally zeros in on financial management from personal and household settings. Local information on financial literacy is limited.

2.2 THE CONCEPT OF FINANCIAL LITERACY AND EDUCATION

Financial education is increasingly important, not just for investors but also average families trying to decide how to balance its budget, fund the children's' education and ensure an income when the parents retire (Organization for Economic Cooperation for Development , 2006). The OECD further observes that if individuals become financially educated, they will be more likely to save and to challenge financial service providers to develop products that truly respond to their needs and have positive effects on both investment levels and growth.

Participation in workplace financial education results in improved knowledge attitude and behaviors (Fletcher, C.N., Bebout, G., & Mendenhall, S., 1997). Participants in

workplace financial education also report changes in feelings and attitudes towards personal finances. Bernheim and Garret, (1996) found out that financial education strongly influenced household financial behavior. Other researches by Bernheim found out that the typical retirement education programme in the work places raises the average rate of overall savings (Bernheim, 1996). Further financial education also results in actual change in personal financial management practices (Bernheim & Garret,1996); these include creating a bill paying plan, starting or adding an emergency fund, calculating how much money is needed for comfortable retirement and reducing credit card balance.

Financial literacy is described as the “the ability to make informed judgments and take effective decisions regarding the use and management of money” (Noctor M., Stoney,S. & Stradling, R., 1992). It identifies four areas of competence, namely, mathematical literacy, financial understanding, financial competence and financial responsibility. Almost each area is elaborated in terms of the skills, understandings and abilities required. Also included in the framework is reference to “attitudes” (attitudes to spending money and saving (financial competence)); and “confidence” (confidence to access assistance when things go wrong (financial responsibility)). A fuller definition of financial literacy is used by Vitt et al. (2005:7) in a comprehensive overview of progress made in financial education programs in the United States in the five years to 2005. It states that personal financial literacy is the ability to read, analyse, manage and write about the personal financial conditions that affect material well being. It includes the ability to discern financial choices, discuss money and financial issues without (or

despite) discomfort, plan for the future, and respond competently to life events that affect everyday financial decisions, including events in the general economy.

Vitt et al's (2005) definition hints at the presence of social and cultural meanings associated with money and also how the practice of personal financial literacy is enmeshed in contexts as broad as the general economy. Both definitions, however, are written in terms of "abilities" only with no sense that these abilities need to be activated for financial literacy to be practiced. Financial literacy only exists when practiced and it can only be practiced in social contexts. In the interest of keeping the definition succinct but at the same time capturing this crucial element in the nature of financial literacy Vitt et al (2005) propose another definition as exercising in real life situations the ability to make informed judgments and to take effective decisions regarding the use and management of money.

The link between social capital and financial literacy seems more obvious. Exercising financial literacy in real life situations requires interactions with people in networks. Financial literacy calls on one's knowledge and skills resources about money, on one's identity resources (behaviors, beliefs, feelings and knowledge) to do with money and on one's confidence to act in particular ways. These resources are drawn on, and for that matter, produced through the networks of which we are members or have been members. Financial literacy has been defined as "knowing the facts and vocabulary necessary to manage one's personal finances successfully" (Garman & Forgue, 2000:2).

A review of the literature on financial literacy from 1979 to 2006 found the majority of comprehensive research studies focused on high school students (Alhabeeb, 1999; Jumpstart, 2004; Moschis, 1985; NEFE, 2002 and O'Neill, 1992) or adults (Princeton Survey Research Associates, 1999). Researchers concluded that neither high school students nor adults have the financial literacy to adapt well in today's society. Jumpstart (2004) reported that students are graduating from high school without the ability to make wise financial decisions.

Financial literacy is important because as the world becomes more and more complex with increasing financial products informed decisions need to be made. Greenspan (2001) a former Chairman of the United States Federal Reserve Bureau maintains that as market forces continue to expand the range of providers of financial services, consumers will have much more choices and flexibility in how they manage their financial matters. He further suggests that consumers need to accumulate proper knowledge on how to use new technologies and how to make financial decisions in an appropriate manner.

Decisions relating to personal financial management include how to balance budgets, buying a house, funding education requirements and ensuring that there is enough cash during retirement. Factors that have led to this complexity include technology change, market innovation, predatory lending, high levels of consumer debt and low levels of savings rates (Welch, 2002). Financial Education therefore becomes a tool box to assist individuals take their financial journey. Financial literacy may be seen as comprising dimensions of knowledge and confidence (Cutler, 1997). Cutler designed a survey to (i)

discover the extent to which respondents were able to distinguish financial myths and facts; and (ii) to assess respondents confidence in making choices concerning financial services for example mortgages, mutual funds and life insurance compared with choices regarding consumer goods such as vehicles, computers and televisions. Their research primarily focused on financial literacy around retirement issues. Although the study did not address how people effectively deal with their finances, it however implied that financial literacy is essentially a function of access to financial information.

A policy brief written by Organization for Economic Co-operation and Development (OECD) 2006, recorded a key challenge as convincing people that they are less financially literate than they presume. Financial literacy provides information for the investor on what needs to be done in developing a financial plan. This would include an investment plan covering areas such as retirement; insurance; savings; living at the same level of lifestyle presently; education for the children etc. Secondly, financial literacy would enable the investor know how to manage spending. Lack of a spending plan or budget may lead to unrestrained spending habits. Developing a spending plan is vital in managing personal incomes. Without this the temptation to spend will always be rife. Thirdly developing a portfolio for investment may be difficult considering that different assets attract different risks for those who are not financially literate.

The United States Financial Literacy and Education Commission (Basu, 2005:2), defines financial literacy as the ability to make informed judgments and to take effective action regarding the current and future use and management of money. This includes the ability

to understand financial choices, plan for the future, spend wisely and manage and be ready for life events such as job loss or saving for retirement.”

In the “Financial Literacy 2000” Project, (Orley, 1994) a national effort was made to assess public patterns of financial knowledge and consumer confidence. A sample of 1000 adults was surveyed for the purpose of providing financial literacy profiles of the U.S. population for a subsequent responsive educational campaign to improve financial literacy. Cutler and Devlin (1996) conceived of financial literacy as comprising both knowledge and a confidence dimension. Devlin implied that financial literacy is a function of the financial information to which one has access. According to him, the key to getting people to improve their financial behavior is to first give them the information which they can then use to confidently engage in the desired behavior. With a mastery of the fundamentals of personal finance, the management of money becomes more purposeful and ordered. It can lead to increased financial security throughout all life stages, especially in later life. Published research results suggest there is much work to be done in the area of financial literacy education to achieve even a modest degree of mastery, and the data we have gathered in this field study confirm such earlier research findings.

Across the decade of the 1990s to the present, the issue of financial education has risen on the agendas of educators, community groups, businesses, government agencies and policy makers (Braunstein & Welch, 2002). This increased interest in financial education has been prompted by increased complexity of financial products and the increased

responsibility on the part of individuals for their own financial security. Amid growing concerns about consumers,' financial literacy, the number and types of financial education programs have grown dramatically since the mid-1990s (Vitt et al., 2005)

2.3 CONSEQUENCES OF FINANCIAL ILLITERACY

Financial illiteracy has implications for household behavior. Bernheim (1995, 1998) was the first to point out that households could not only perform simple calculations, lacked basic financial knowledge, that the saving behaviors are dominated by crude rules of thumb. Lusardi and Mitchell (2006, 2007) show that those who display low literacy are less likely to plan for retirement and as a result accumulate much less wealth. Agarwal et al (2007) further show that financial mistakes are prevalent among the young and the elderly who display the lowest amount of financial knowledge and cognitive ability. Atkinson and Kempson (2004) found that people in Britain are increasingly over-borrowed, leading to financial difficulties because of financial illiteracy. Workers find themselves in financial crises owing to the need to spend their income on costly goods, such as branded clothes and cell phones, for the purpose of fitting into a society where these goods have become a necessity, rather than a luxury (Lorgat, 2003). Anthes (2004) supports this viewpoint and refers to the "instant gratification mentality" that individuals possess that lures them into spending more on what they want and do not necessarily need.

A study by Kidwell and Turrisi (2004) deduced that budgeting can change spending patterns of individuals through the successful regulation of finances. As a result,

unnecessary spending is curbed and budget maintenance is met with a favorable attitude. It was found that 45.6 percent of students with better financial knowledge keep detailed financial records, compared with only 29 percent of the students with inferior financial knowledge. This was confirmed by research conducted by Chen and Volpe (1998), in which they suggest that groups who are more knowledgeable regulate their spending patterns and decisions by keeping detailed financial records.

Research by Chen and Volpe (1998) shows 89.4 percent of financially knowledgeable students view the planning and implementation of a regular investment programme as important. When they were offered an investment situation, 80 percent of the knowledgeable group made the correct investment decision, whereas only 51 percent of the less knowledgeable group made the correct decision. Most consumers are not educated enough to make informed investment decisions, as proved by a survey done by Princeton Research Survey Associates (1999) in which 45 percent of the recipients had some financial knowledge and 18 percent of the respondents did not have any knowledge concerning investment planning and implementation.

Related closely to the above is the fact that the more knowledgeable an individual is concerning personal financial issues, the less likely that individual would be to make inaccurate financial decisions that could lead to financial problems, such as taking out inadequate insurance, exceeding their income and making incorrect investment decisions (Chen & Volpe 1998). Garman, Leech and Grable (1996) suggest that negative financial decisions could be rectified or avoided by providing employees with the necessary

financial counseling and intelligence to manage their finances in a more effective manner. Consumers who spend more than they earn, who do not keep financial records and do not plan and implement regular investment programmes, are individuals who make flawed financial decisions.

2.4 FINANCIAL MANAGEMENT PRACTICES

The complexity of money and its uses, including personal use, has been of interest to consumers, intellectuals, theologians, money lenders, and to the “haves” and the “have nots” for centuries. One hundred years ago, Georg Simmel, a German sociologist, who continues to be read in modern day, wrote two books, the *Philosophy of Money* (1907) and *Sociology* (Wolff, 1950). He wrote of the challenges that a money economy brings to the way people interact with one another. On the one hand, money rationalizes society, mathematizes it, or in his words, it aims to “transform [it] into an arithmetic problem” (Wolff, 1950:412). Money, according to Simmel, (1978) depersonalizes social interaction introducing abstractness and anonymity. On the other hand, he notes that a money economy requires an enormous amount of trust, on a far larger scale than what was required when say, bartering was the means of exchange. His observations are as true today as they were 100 years ago.

The personal financial management demands made on individuals in the 21st century however are far more complex than those of even 30 years ago, let alone 100 years ago (Wilson, 1999). The institutions, markets, services, financial instruments, and products created by an increasingly sophisticated financial system and supported by an equally

increasingly sophisticated information technology are a long way along the evolutionary development of money from when it only existed in physical forms. The recent OECD Report (2005) on financial education notes that “financial market developments and demographic, economic and policy changes” (OECD, 2005:27) are demanding more sophisticated financial literacy of people in order to manage their own personal finances effectively.

The report identifies the increase in number and complexity of financial products available about which consumers need to make decisions. The range of products available for investing, borrowing and protecting income is bigger than ever before. Also important are the financial considerations around personal planning for retirement e.g., superannuation (Krueger, 1986). Government policies are regularly changing in response to a more accurate assessment of the consequences of diminishing job opportunities, challenges due to liberalization and the many people entering retirement (Wilson, 1999).

In addition to the economic functions we have vested in money, and which are complex enough, we also attribute other social meanings to money as well as cultural meanings. The research disciplines of psychology, sociology and anthropology have contributed to an understanding of the social and cultural meanings that people vest in money and the impact of such meanings on how they manage money (Belk & Wallendorf, 1990, Wilson, 1999, Zelizer, 1994). Parry and Bloch (1989) describe the more dominant traditions present in Western society to do with attitudes about money.

One tradition originating with Aristotle, later developed by Aquinas in the middle Ages, and then further developed by Marx, generally condemns the accumulation of money, and any activities whereby money is used to make money. In contrast, Adam Smith, the eighteenth century political economist, represents the view that the pursuit of money is a positive and productive endeavor for both the individual and the community. He believed that the “happiness and prosperity of society was founded on the individual pursuit of monetary self-gain” (Parry & Bloch, 1989). Both worldviews continue to coexist today in everyday personal financial decision making processes.

Not all social and cultural values we attribute to money lead to its effective. In very concrete terms, the recent Nielsen and ANZ report (2005) *Understanding Personal debt and Financial Difficulty in Australia* identified reasons for people experiencing difficulties in managing their finances. Approximately 160 people were interviewed individually, in pairs or in groups. Two sets of contributing factors were lack of financial skills and knowledge (true for a minority) and circumstances beyond the person’s control (a predominant factor). A third set, also identified as a predominant factor, was described as “unhealthy ways of thinking” about money.

Included amongst the “unhealthy ways of thinking” were attitudes and beliefs that produced financial disengagement or that resulted in preferences for “living for today” at a price to be paid for some time in the future. Also identified amongst the detrimental ways of thinking about money were two that had to do with the need for social belonging. The first was described as the need for “social connection” where people felt they had to

spend money in order to feel connected to the mainstream of human life. The second was described as “inspirational” that is , “keeping up with the Joneses” where again people spent money they did not afford but in this case, it was to win the approval of others.

The Nielsen and ANZ Report also identified barriers to acquiring financial knowledge. Amongst these, is what was described as a “lack of financial self-identity” (Nielsen & ANZ, 2005:25). This was related to a mathematics ability perceived to be inadequate by the interviewees but also to the desire to see themselves as being “hopeless with money” or at the very least, disengaged from money management. The report also identified factors that influenced the ways in which the interviewees dealt with money. Amongst both the influences that predisposed people to behave in a particular way and the influences that encouraged particular ways of thinking, social networks were significant. Family of origin played an important role as did social groups to which the interviewees desired to belong. For example, the values and norms of some social groups normalized disengagement with financial matters while those of other groups required spending in high cost activities such as dining out, shopping, drinking and partying which resulted in some people spending money that they did not have.

Studies done in the United States by various researches have shown that relatively few households follow recommended financial management practices but prefer to use their own understanding. These recommended financial management practices include budgeting and cash flow management, account ownership, use of credit, savings behaviour and asset accumulation (Davis & Carr, 1992).

The most basic financial practice is to pay bills on time (Aizcorbe, A.M., Kennickell, A.B., & Moore, B.K., 2003). They argue that in addition to paying bills on time, financial educators typically encourage individuals to make written budgets and to regularly compare actual expenditures (O'Neill, 2002). More research on budgeting and cash flow management is needed because existing research uses small samples. However, there is evidence that many families use informal mental budgets rather than written budgets; use short term budgets (that is budgets covering one month or less); and prefer techniques that require little mental energy (for example, automatic bill-paying or envelop accounting) (Davis & Carr, 1992; Muske & Winter, 1999,2001). There is also evidence that families-of all income levels-have trouble resisting spending temptations (Beverly, S.G., Romich,L.J. and Tescher, J. 2002; Kennickell, A.B.,Starr-McCluer, M.,& Suden, A.,1997)

Account ownership also indicates a certain level of financial literacy. Owning a low-cost current or savings account is recommended for several reasons. It reduces the cost of routine financial transactions (Doyle, et. al., 1998), helps individuals develop positive credit histories (Caskey, 1997), and may facilitate asset accumulation by providing a secure place to store money that is somewhat "out-of-reach" (Beverly, Moore & Schreiner, in press). Two common indicators that families are overburdened by debt are; first, having a debt payment to income ratio greater than 40 percent, and secondly, being substantially late with credit card payments.

In 2001, according to the Survey of Consumer Finances (SCF), 11 percent of all the families in the US had debt-to-income ratios greater than 40 percent. These percentages were higher for lower-income families (Aizcorbe et al., 2003). Another study found that 3percent of college student credit card accounts showed at least one payment at least 90 days late, compared with 2 percent of other non-student young adults and 1percent of the non-student older students (Staten & Barron, 2002). No such study has been carried out in Kenya due to the fact that credit card is a new concept in the Kenyan financial market.

One of the most common financial management principles is to save regularly, generally by setting aside some amount of savings before paying for expenses (O'Neill, 2002). The SCF asks two questions about "saving habits:" whether households spend less than their income and whether they save regularly. In 1998, 42 percent of SCF respondents indicated that they spent less than their income (Hogarth & Anguelov, 2002). While 39 percent of the respondents said they saved regularly, 23 percent said they didn't save, and 33 percent said they saved whether was left at the end of the month (Montalto, 2002). Many households have very low levels of wealth accumulation (Montalto, 2002). Numerous studies show that more than half of households do not have adequate emergency funds (Chang, Hanna and Fan, 1997: Wolff, 2000). Still other studies suggests than Americans are saving too little for retirement (Bernheim, 1998).

A study by Lusardi (2008) indicated that financially illiterate individuals could not perform simple economic calculation and lack of knowledge of basic concepts such as working interest compounding, the difference between normal and real values and the

basic risk diversification. Even scarcer was the knowledge of the difference between bonds and stocks, working of mutual and basic asset pricing. Such individuals were less likely to plan for retirement and to accumulate and more likely to engage in high interest mortgage (Moore, 2003). At the same time the studies brought out concerns that households are not saving enough for retirement; are accumulating excessive debt and not taking advantage of financial innovation (Lusardi & Mitchell 2007b; Campbell 2006).

2.5 CONCLUSION

This discussion shows that interacting with money is a social practice conducted with other people, and whether it be spending, saving or borrowing it is more than just a technical exercise. It involves a range of knowledge and skills and also attitudes and beliefs not only about money but also about how we perceive ourselves with respect to money.

These studies indicate that financial literacy plays a critical role when it comes to financial management. Decisions made by individuals or households will be pegged on how financially literate these individuals and households are. It is also clear that limited financial knowledge leads to financial difficulties owing to spending their income on costly goods such as branded clothes, mobile phones mainly for the purpose of fitting into the society.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter discusses the research design, strategy of data collection, which includes the sample sizes and design, data collection methods and an overview of how the data was analyzed.

3.2 RESEARCH DESIGN

This was a descriptive quantitative study aimed at determining the effect of financial education on personal financial management practices. The study aimed at providing background of a situation and also a detailed relative accurate picture, therefore it is descriptive. According to Cooper and Schindler (2003), a descriptive study is concerned with finding out who, what, where and how of a phenomenon.

3.3 POPULATION

The population of the study comprised all employees perceived to have training in finance from financial institutions listed on the Nairobi Stock Exchange. There were fifteen (15) financial and investment companies listed on Financial and Investment Sector Market (FISM) of the Nairobi Stock Exchange at the time of the study. Employees from these companies (such as bankers, financial analysts, advisors) are perceived to have training in financial matters. These institutions have also on their payroll other caliber of

staff (such as administrative assistants, public relations officers , human resource managers among many others) perceived not to have finance related training.

3.4 SAMPLE

A total sample of 192 respondents was used for this study. Rosco (1975) proposes a rule of thumb for determining a sample size and says that a size of 30 to 500 is appropriate for most researches. The sample size was drawn based on the size of the organization. Although the questionnaires were sent to employees of the 15 institutions, responses were received from 12 of the 15 institutions listed on the Nairobi Stock Exchange. These employees are assumed to be financially literate by virtue of their training and nature of work. Such financial knowledge would enable them make good financial management choices through what they practice.

A second independent sample was drawn from other randomly selected non finance and investment institutions. This second sample was picked to establish whether a difference exists between the two groups when it comes to personal financial management practices. However care was taken interview only those employees in other departments other than finance, It is assumed that those working in finance would display same trends as those working in banks because their training. Hence the justification to interview only those outside this bracket. Simple random sampling technique was used to select respondents from each institution. According to Cooper (2003) in simple random sampling, each population has a known equal chance of selection.

3.5 DATA COLLECTION

A self administered questionnaire was delivered to the respondents and collected after completion. The questionnaire was relatively short and could be completed within ten minutes. However considering other office commitments, the respondents were allowed 2-3 days to complete the questionnaire. The brevity of the questionnaires encouraged the respondents to complete the questionnaire quickly without losing content.

The objective of the questions was to establish the effect of financial education in relation to personal financial management practices. The key questions were those related to personal financial management practices. These were 24 in number and required the respondents to select an appropriate response from a 5 point likert scale ranging from (i) *Never* to (v) *always*.

The questionnaire comprised other series of questions seeking assessing demographic information (age, sex, and marital status, length of employment, education, profession and monthly income) and knowledge and source of financial information.

3.5 DATA ANALYSIS

Data was first edited for completeness and consistency. The questionnaires were thereafter coded to facilitate tracking should editing be required later on. Data was then fed into the computer using the Statistical Packages for social Sciences (SPSS ver 12).

The responses from each participant were used to calculate the mean scores for each question.

The financial management practices of participants were examined using a likert scale comprising twenty four 5-point questions scored from (1) *never* to (5) *always*. The items were broadly categorized into Saving Practices, Expenditure Practices, Investment Practices, Money Management Practices, Retirement Practice and Unexpected Expenditure Practices. A score on the scale ranged from 24 to 100 with higher scores indicating a higher level of use of personal financial management practices.

The Students t-test was used to examine the data with the objective of determining whether there is a significant relationship between financial education (profession) and personal financial management practices.

CHAPTER 4

4.0 DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 INTRODUCTION

This chapter describes the process of data analysis, presents results and draws discussion on information collected. One hundred and ninety two (192) respondents 144 of these were drawn from financial and investment institutions listed on the Nairobi Stock Exchange (NSE). The other 48 respondents (control group) were obtained from other institutions outside the financial and investment sector to participate in the study.

The purpose of the study was to explore the effect of financial education on personal financial management practices. The objectives were:

- 1) To determine the most widely practiced personal financial management behaviors.
- 2) To determine the relationship between financial literacy and personal financial management practices.

4.2 DATA ANALYSIS

Data was analyzed using the Statistical Package for Social Sciences (SPSS) version 12. Descriptive and inferential statistics such as frequencies tables, percentages and correlation tests were used in the data analysis and summaries. The researcher collected

data from the respondents using a self administered schedule that was broadly divided in two sections:

Section 1: Demographic data. This section contained a key question on the knowledge and source of financial knowledge.

Section 2: Personal Financial Management Practices

4.2.1 DEMOGRAPHIC DATA

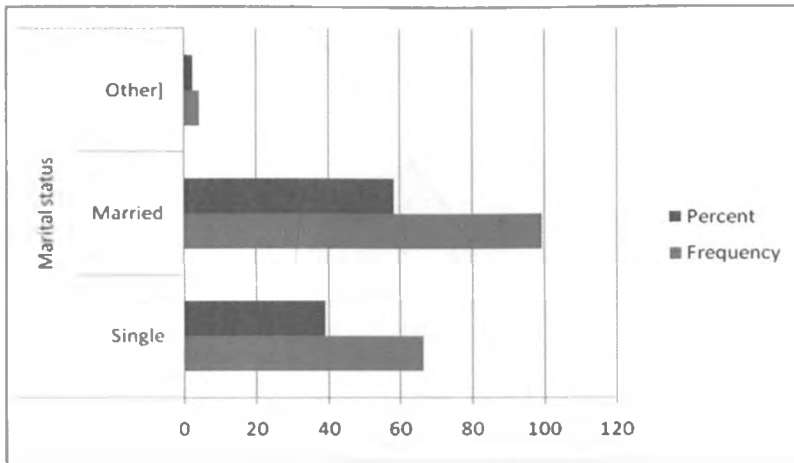
Detailed demographic characteristics including sex, age, marital status, education are shown in Appendix 1. A majority of the respondents (57 per cent) were men compared to 45 percent women. 58.2percent respondent are married while 39.7 percent were single. More than 80 percent had post graduate qualification while 18 percent peaked at secondary level. The age profile of the respondents ranged from 20 to 60 years. Majority 44.3 percent) of them were between 20 to 30 years.

Table 1: Percent distribution of Respondents by Sex and Age

Age	Sex		Total (%)
	percent men	percent women	
20 -30	57.0	43.0	44.3
31 – 40	50.0	50.0	33.0
41 -50	53.8	46.2	20.1
51 – 60	66.7	33.3	1.5

Source: Research Data, 2010

Figure 1: Percentage distribution of Respondents by Marital Status

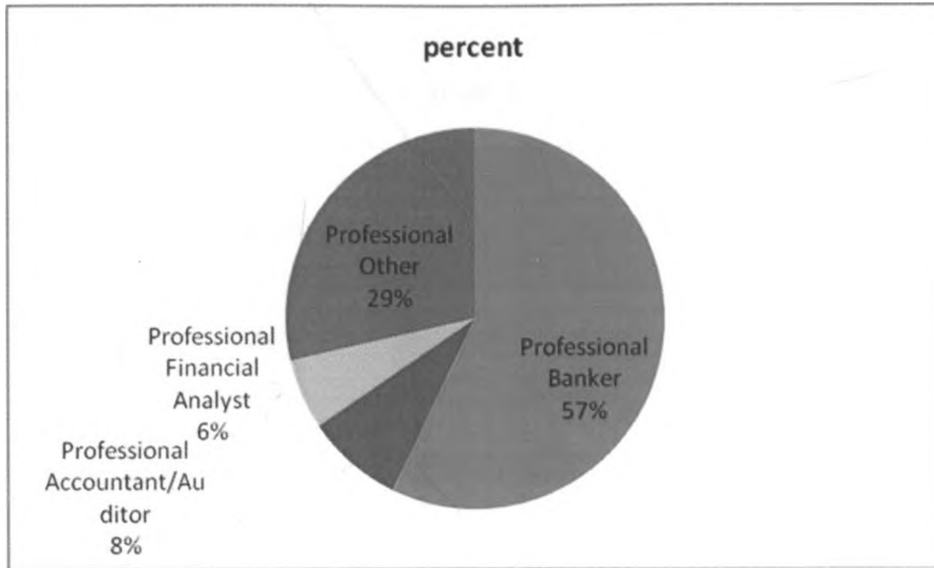


Source: Research Data, 2010

4.2.2 Profession

This purpose of this question was to classify the different respondents in their current profession. There were four category options to the response ie Bankers, Accountants/Auditors, Financial Analysts and “Other” Category. Most (53.9 percent) of the respondents were banking professionals. This is explained by the fact that data was collected from financial institutions mainly banks. By virtue of these employees working in a financial institution it was assumed they had acquired financial education in addition to their training that would be reflected in their financial practices. The other respondents comprised 10.4percent auditor and accountants; and 5.7 percent financial analysts.

Figure 2: Percentage Distribution by Profession



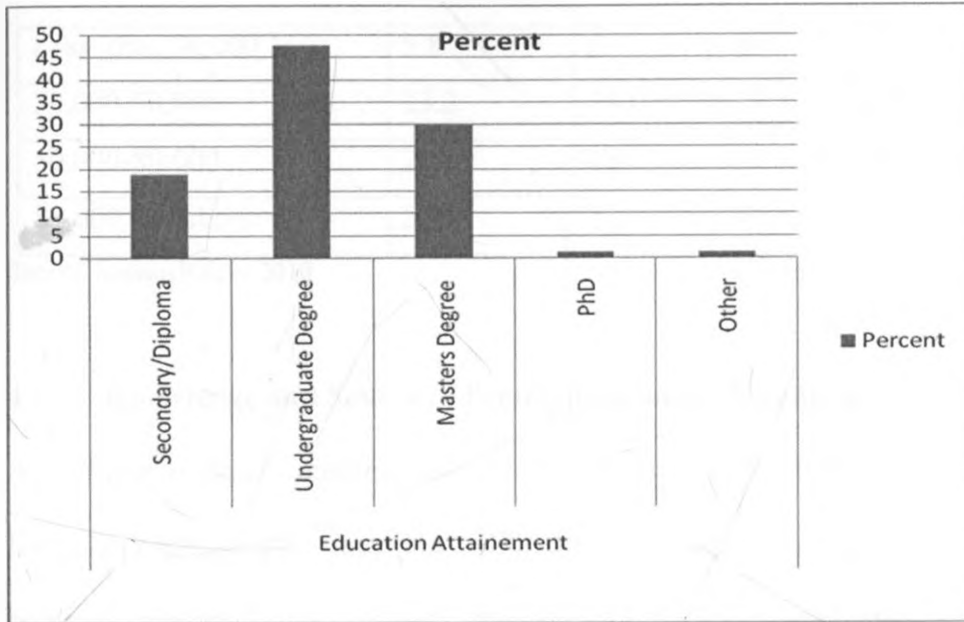
In order to get a clear distinction between those financially educated and those who are not, a control group from outside these institutions was interviewed and classified under “Other” that comprise 30.1 percent of the total respondents. For the control group, questionnaires were only administered to non finance staff such as human resources, information technology, communications, procurement etc. The categories were finally collapsed to only two categories; those who are financially educated and those who are not financially educated.

4.2.3 Educational Background

The education variable is an important variable as it is considered to predict the financial behaviors. Anna Maria (2009) found out that there was a strong positive relationship between educational attainment and financial literacy and in particular those who had attended some level of college. She further found out that even having completed high

school made respondents manage their finances much better compared to those who had not completed.

Figure 3: Highest Level of Education Achieved



Source: Research Data, 2010

The results show that 18 percent had not gone beyond secondary school while 48.2 percent had acquired a first degree and 31.6 percent have post graduate degrees.

4.2.4 Monthly Employment income

The monthly income variable was divided into four categories. In all the categories, there were fewer women than men except for the category of 50,000-80,000 where there was a tie. Those earning less than Kshs 30,000; between Kshs 31,000 and Kshs 50,000; those between Kshs 51,000 and Kshs 80,000 and those earning 81,000 and above. The income for most (51.1 percent) of the respondents was above Kshs 81,000, 20 percent between

Kshs 50,000-80,000; 23.2 percent earned between Kshs 30,000 – 50,000 while 5.8 percent only were earning less than Kshs 30,000.

Table 2: Percent distribution of respondents by Income Categories

Income Category (Kshs)	Percent Distribution	Men(No)	Women (No)	TOTAL
Less than 30,000	5.8	6	5	11
30,000-50,000	23.2	27	17	44
50,000-80,000	20.0	19	19	38
81,000 and above	51.1	52	45	97

Source: Research data, 2010

4.2.5 Knowledge and Source of Personal Financial Management

A multiple response question on whether the respondent had knowledge of Personal financial management practices. The different response categories are “friends and relatives, reading books, college/university and workshop/seminars”. The research data gave indication on how respondents learned about financial knowledge. Those who are financially educated a majority(31 percent) obtained the financial knowledge from reading books, then through college/university (27 percent) and thirdly through seminars and workshop. While the first two reasons are the same for the non financially educated, the third one is from family and friends which is quite significant.

4.3 RESULTS AND DISCUSSIONS

4.3.1 Personal Financial Management Practices

Poor financial behaviors are personal and family practices that have consequential, detrimental and negative impact on one’s life at home and work (Thomas, 1996). E.T.

Thomas provides examples of poor financial behaviors that negatively impact one's family life for example regularly running out of money, unable to pay due bills on time (utilities, rent, credit cards etc) typically not contributing to a pension plan; regularly feeling emotionally stressed about money and many others. Although this study was not looking at the effect of poor financial behaviors, the responses obtained can help the researcher to make some of the inferences.

Savings Practice

Saving is defined as what is left out of personal disposable income. On the other hand personal disposable income is defined as income after taxes are paid (Urban Institute, 2008). Saving may also be seen as the difference between income and consumption. This implies that as savings automatically declines, consumption increases (Lusardi, 2003).

Most respondents reflect a savings culture displayed by setting aside some money out of each payment they receive. There is no significant difference in the means of both categories. Those who were financially educated recorded a mean of 3.70 while those who are not have a mean of 3.60 out of the maximum 5.0 points. Most financially educated respondents are always looking for other opportunities to save money. Those who are not financially educated are setting aside money for future needs followed by saving out of each payment they receive (3.60).

Table 3: Saving Practices of Respondents by Category

Practice	Fin. Educated	Not Fin. Educated
I save/ invest out of each payment I receive?	3.70	3.60
I save at least 10percent of my gross monthly income	3.61	3.51
I set aside money for future needs/wants	3.72	3.60
I increase my savings when I receive a salary increase	3.61	3.29
I am the kind of person who always looks to save money	3.80	3.46

Source: Research data, 2010

Expenditure Practices

A report by the National Foundation for Credit Counseling (2007) suggests that many financial experts agree that having a household budget is a characteristic of good financial management practice.

Table 4 summarizes expenditure practices of respondents by category. The research study showed that more respondents who are financially educated track all or some of their expenses with a mean of 3.67 compared to their counterparts who registered a mean of 3.60. Both categories however display the same trends when it comes to comparing prices for all major expenses with means of 4.13 and 4.02 respectively.

The best way to really know where the money is going is by tracking spending each day. Only then can spending change. Those financially educated recorded a mean of 3.67 compared to 3.60 for those who are not.

A very small percentage in both categories spends more than they can afford recording a mean of 1.94 and 1.93 respectively. Spending more than one makes can lead to unnecessary debt burdens for the individuals. Debts and especially consumption debt can negatively change the course of one's life (Monyoncho, 2007). About three in ten of those interviewed did not having a spending plan.

Table 4: Expenditure Practices of Respondents by Category

Practice	Fin. Educated	Not Fin. Educated
I track some or all my expenses	3.67	3.60
I compare prices for major expenses	4.13	4.02
I use a spending plan or budget	3.44	3.34
I often spend more than I can afford	1.94	1.93
I closely watch the amount I spend	3.87	3.56

Source: Research Data, 2010

Debt Management Practices

Two questions asked meant to understand the respondents' debt management practices. Debts can be accumulated either by borrowing interest linked funds and not paying on time hence attracting penalties; or borrowing money and using it mainly for consumption. This can either be through delaying paying bills or even credit card purchases that are not cleared at end of the set period. Monyoncho (2007) suggests that one should avoid buying consumables on credit and rather pay cash. Table 5 summarizes debt management practices by category. The respondents from both groups recorded very high means of above 4.4 for both categories of debt management. This indicates a high level of discipline in regard to paying bills and creditors on time. Of the two groups those who

are not financially educated are more sensitive sorting out their bills on time with a mean of 4.67 compared to those who are financially educated with a mean of 4.52

Table 5: Debt Management Practices of Respondents by Category

Practice	Fin. Educated	Not Fin. Educated
I pay my bills on time?	4.46	4.70
I repay the money I owe on time	4.52	4.67

Source: Research data, 2010.

Investment Practices

Although many respondents were aware of existing investment instruments a much lower numbers had made investment commensurate to the knowledge. This observation is for both those financially educated and those who are not. To make saving and investment decisions individuals require knowledge beyond fundamental financial concepts including relationship between risk and return; how bonds, stocks and mutual funds work (Lusardi, 2008). This study, however did not delve into looking at these relationships. Those who are financially literate have a higher mean in investments compared to those ho are not.

Table 6: Investment Practices of Respondents by Category

Practice	Fin. Educated	Not Fin. Educated
I know about investments (stock, bonds, mutual funds)	4.16	3.96
I have invested in stocks, bonds or mutual funds	3.19	3.16
I spread my money across more than one type of investment	3.53	3.41

Source: Research Data, 2010

Money Management Practices

The survey information provides description of how respondents learned about managing money. There were five sources of information on how to manage their money. The most preferred source is from reading books followed by college/university.

Looking after one’s spending habits can help “find” money to put in their financial goals. The best way to know where to spend is to track spending practices. Every shilling must be written down daily to find out where money is going. Slightly more than 50 percent (or mean of 2.60) of those respondents who are not financially educated have at one time or the other felt that their finances were out of control. They are more likely to worry about money and less likely to write out their money goals.

Table 7: Money Management Practices

Practice	Fin. Educated	Not Fin. Educated
Have you ever felt that your financial situation was out of control	2.42	2.60
I worry about money matters	3.08	3.11
I write Goals for managing my money	3.22	2.73
I generally achieve my money management goals	3.23	3.11

Source: Research Data, 2010

Retirement Practices

Retirement programs represent a way to encourage long term planning as it relates to employment (Muske & Winter, 2004). Such plans can be viewed as wise financial management. A study by the *Principal Global Financial Well Being* (2004) indicated that majority of survey participants are extremely concerned about their financial future and specifically their standard of living. According to Lusardi (2000) financial literacy affects financial decision making. Ignorance about basic financial concepts can be linked to retirement planning, lack of participation in the stock market, poor borrowing etc.

Only one question on retirement was posed to the respondent. This was on whether they contribute to a pension scheme on a regular basis. Data collected for the research study shows that those perceived to be financially educated place a premium on retirement, recording a mean of 4.38 compared to those not financially educated at 4.00. The high mean could be attributable to the fact that retirement contributions are statutory and are deducted at source especially for those who are formally employed.

Table 8: Retirement Management by Category

Practice	Fin. Educated	Not Fin. Educated
I contribute to a registered retirement benefits scheme	4.38	4.00

Source: Research Data, 2010

Retirement planning is a predictor of wealth accumulation (Lusardi, 2003, Lusardi & Beeler, 2007, and; Lusardi & Mitchel, 2007a). Those who plan, more than double the wealth of those who have not done any retirement planning. Lusardi (2008) suggests that those who are more financially knowledgeable are more likely to have planned for retirement.

Unexpected Expenses Management Practice

Both groups of respondents seem to agree that having an insurance cover is important, especially when it comes to meeting unexpected expenditures. The means are 3.54 for those who are financially educated and 3.56 for those who are not. There is a significant difference between the two groups when it comes to having enough money for an unexpected emergency. Those who are financially literate are more prepared for unexpected situations compared to those who are not.

Table 9: Unexpected expense Management by Category

Practice	Fin. Educated	Not Fin. Educated
I have insurance to cover "big" unexpected expenditures	3.54	3.56
I have enough money to pay for an emergency	3.47	3.14

Source: Research Data, 2010

4.6 CONCLUSIONS

Practices of those perceived to be financially educated seem to agree with the current literature. However it is also more surprising that even those who are perceived not to be financially educated exhibit the same characteristics. Implying that probably, formal college education and employment environment may not be the only source of financial education. Respondents are able to access and utilize financial knowledge to their benefit.

The research has established that there are more people interested in saving out of each payment they receive. Those financially educated look out for more sources of money to save compared those who are not. Both categories are prudent with their spending habits as they rarely spend more than they can afford. More of those who are financially educated closely watch what they spend compared to their counterpart. Debt is a major issue for the respondents, this is largely avoided by ensuring that debts and bills are paid on time. Knowledge of investment options has not been fully translated to investments. About half the respondents have felt that their financial situation was out of control while another 40 percent worry about their money matters. More of those who are financially

educated spend time writing out their money goals compared to those who are not. When it comes to retirement, more of those who are financially educated contribute regularly to a registered retirement benefits scheme. The margins are however not that wide. This indicates that either retirement is not a priority or not well understood, such that if people had an option, they prefer not to contribute to any registered scheme.

CHAPTER 5

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter concludes this research study. It presents the findings, recommendations and conclusions. It briefly discusses research findings that differ from literature review. It further highlights the limitations of the study and finally suggests recommendations for practical and further research.

5.2 SUMMARY OF FINDINGS AND CONCLUSIONS

Financial, knowledge, *experience* and behaviors are linked in a relational way (Washington State Department, 2003). The report further observed that those financial experiences and behaviors together contribute to financial knowledge levels and gains in competency. The extent to which an individual demonstrates financial knowledge, more financial experience and more positive protective type financial behaviors, predicts the extent to which they would be financially literate and more effective in their financial management.

A majority of those who are presumed to be financially educated practiced very few personal financial behaviors. Out of the 24 possible behaviors, 22 were positive elucidating a strong response on the likert scale (*about the half the time, regularly or always*). Out of the 22 only 4 were regularly practiced (see Table 10). The researcher

expected that the respondents would register a high mean of at least 4.5 and above, but this was not the case.

The situation was slightly worse for those not financially educated. Only 3 of the 22 behaviors recorded a mean of 4 and above, reflecting the gap between what they already know and what they missed by not working in a financial or investment institution.

Table: 10: Top 5 Personal Financial Management Preferences

<i>Financially Educated</i>	Mean	<i>Not Financially Educated</i>	Mean
I repay the money I owe on time	4.52	I repay the money I owe on time	4.67
I pay my bills on time?	4.46	I pay my bills on time?	4.70
I contribute to a registered retirement benefits scheme	4.38	I compare prices for major expenses	4.02
I know about investments (stock, bonds, mutual funds)	4.16	I contribute to a registered retirement benefits scheme	4.00
I compare prices for major expenses	4.13	I know about investments (stock, bonds, mutual funds)	3.96

Source: Research Data, 2010

Although respondents working in financial institutions ought to have certain financial, knowledge, what is practiced may not be in tandem.

This study focused on the effect of financial education on personal financial management practices. The results have shown that those who are financially educated do practice to a very small extent the standard financial behaviors. A perfect mean of 5 would have

indicated that the financially educated understand the impact of poor money management habits caused by lack of financial education. It further observes that you can still practice financial behaviors whether working in financial institution or not. This is as a result of other available avenues of acquiring financial knowledge. Finally there is no significant difference between those who are perceived to be financially educated compared to those who are perceived to be not, in the way they behave, financially speaking.

5.3 LIMITATIONS OF THE STUDY

The researcher experienced a number of constraints while undertaking this research.

The major limitation was the limited literature available on similar work done in Kenya. Most of the literature references were from western countries such as United States of America, Canada and Australia that had carried out various studies related to this one.

Time constraints and availability of funds made it difficult also to obtain a much wider sample. As a result the researcher was restricted to the firms only listed on the Financial and Investment Market Segment (FISM) of the Nairobi Stock Exchange (NSE). A larger sample would probably have provided more interesting scenarios in the analysis. If time and financial resources were available, a bigger sample frame would have been taken say 500 considering the size of the Financial and Banking institutions.

Although the questionnaire was short, it took longer to collect them because most of the respondents did not seem to have time. Some took as long as 10 days instead of the estimated 2-3 days, hence delaying the analysis of this research.

5.4 SUGGESTIONS FOR FURTHER RESEARCH

This study presumed that those employed in financial and investment institutions had been exposed to financial education that would inform their decision making process in relation to personal financial Management. The counter argument would also hold for those without any financial exposure. Future research may need to look into ways of testing financial literacy. This can include asking certain basic questions such as calculating interest rates (simple and compound); money and inflation, risk and return etc.

Secondly, the study can in future be carried out to different demographic groups eg sex, age education to see whether which of these characteristics predetermine financial behaviors.

Thirdly, this study showed that for most of the respondents, financial knowledge was acquired through informal sources although not entirely targeting personal financial planning. Future research may want to study the types of financial experiences and characteristics that have most influences on individuals, personnel financial literacy or competencies.

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APPENDIX 1: Demographic Characteristics

		Sex				Total
		Male	%	Female	%	
Age	20 -30	44	58.67	31	41.33	75
	31 - 40	28	49.12	29	50.88	57
	41 -50	19	55.88	15	44.12	34
	51 - 60	2	66.67	1	33.33	3
Marital Status	Single	33	50.00	33	50.00	66
	Married	57	57.58	42	42.42	99
	Other]	3	75.00	1	25.00	4
Number of Dependants	0	7	77.78	2	22.22	9
	1	4	30.77	9	69.23	13
	2	16	45.71	19	54.29	35
	3	12	57.14	9	42.86	21
	4	13	68.42	6	31.58	19
	5 and above	12	75.00	4	25.00	16
Profession	Banker	54	56.25	42	43.75	96
	Account/Auditor	12	85.71	2	14.29	14
	Financial Analyst	6	60.00	4	40.00	10
	Other	20	41.67	28	58.33	48
Education Attainment	Secondary/Diploma	13	40.63	19	59.38	32
	Undergraduate	47	58.02	34	41.98	81
	Masters Degree	30	58.82	21	41.18	51
	PhD	1	50.00	1	50.00	2
	Other	1	50.00	1	50.00	2
Monthly Employment Income	Less than 30,000	5	55.56	4	44.44	9
	30,000-50,000	25	65.79	13	34.21	38
	50,000- 80,000	18	50.00	18	50.00	36
	81,000 and above	44	53.66	38	46.34	82

		Sex				Total
		Male	%	Female	%	
Other Monthly Income	Less than 30,000	33	58.93	23	41.07	56
	30,000-50,000	10	43.48	13	56.52	23
	50,000- 80,000	3	37.50	5	62.50	8
	81,000 and above	2	<u>40.00</u>	3	<u>60.00</u>	5
Do You have Knowledge of personal Financial Management	Yes	78	57.78	57	42.22	135
	No	10	43.48	<u>13</u>	<u>56.52</u>	23
What is the source of your knowledge	Friends and Relatives	27	49.09	28	50.91	55
	Seminars and Workshops	36	62.07	22	37.93	58
	Colleges or University	48	61.54	30	38.46	78
	Reading Books	51	57.95	37	42.05	88
	Other	1	16.67	5	83.33	6

APPENDIX 2

**TOPIC: THE EFFECT OF FINANCIAL LITERACY ON PERSONAL
FINANCIAL MANAGEMENT PRACTICES**

A: PERSONAL DETAIL (please tick)

A01 **Sex** Male [] Female []

A02 **Age** 20 -30 [] 31 – 40 [] 41 -50 [] 51 – 60[] Above 60 []

A03 **Marital Status** Single [] Married[] Other [] Plse Specify.....

A04 **Number of Dependants**

A05 Profession

- a. Banker
- b. Accountant/Auditor
- c. Financial Analyst/Advisor
- d. Other (Plse specify)

A06 **How long have you been employed?**(Years)

A07 Education Attainment

- a. Secondary/Diploma
- b. Undergraduate Degree (Plse Specify)
- c. Masters Degree (Specify)
- d. PhD (Specify)
- e. Other Plse specify

A08 Monthly Employment Income (Kshs)

- a.) Less than 30,000 []
- b.) 30,000-50,000 []
- c.) 50,000- 80,000 []
- d.) 81,000 and above []

A09: Other Monthly Income (Kshs) Please specify

- a.) Less than 30,000 []
- b.) 30,000-50,000 []
- c.) 50,000- 80,000 []
- d.) 81,000 and above []

A10 Do you have knowledge of Personal Financial Management

- a. [YES] b. [NO] If no, please move to Section 2

A11 What is the source of your knowledge? (You can tick more than one answer)

- a. Friends and Relatives
- b. Seminars and Workshops
- c. College/University
- d. Reading Books
- e. Other (Plse Specify)

Section B: Personal Financial Management Practices (Please Tick one)

	Behavior	Never	Rarely	About half the time	Regularly	Always
1	I save/ invest out of each payment I receive?					
2	I save at least 10% of my gross monthly income					
3	I set aside money for future needs/wants					
4	I increase my savings when I receive a salary increase					
5	I pay my bills on time?					
6	I repay the money I owe on time					
7	I track some or all my expenses					
8	I compare prices for major expenses					
9	I use a spending plan or budget					
10	I read about personal money management?					
11	I am the kind of person who always looks to save money					
12	I often spend more than I can afford					
13	I closely watch the amount I spend					
14	Have you ever felt that your financial situation was out of control					
15	I worry about money matters					
16	I write Goals for managing my money					
17	I generally achieve my money management goals					
18	I contribute to a registered retirement benefits scheme					
19	I know about investments (stock, bonds, mutual funds)					
20	I have invested in stocks, bonds or mutual funds					
21	I spread my money across more than one type of investment					
22	I have set aside money to take care of emergencies					
23	I have insurance to cover "big" unexpected expenses such as hospital bill or disability.					
24	I discuss money management with my family					

THANK YOU FOR YOUR TIME.