INFLUENCE OF FINANCIAL LITERACY ON PERSONAL FINANCE MANAGEMENT AMONG EMPLOYEES: CASE OF COUNTY GOVERNMENT OF BARINGO, KENYA

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Abstract- The investigation's goal is to assess the influence of financial literacy on personal finance management among employees in County government of Baringo, Kenya. The study was guided by the following goal, to ascertain the effect of financial literacy on personal investments on personal debt. The study was based on two theories dual-process theory and the theory of planned behavior. A descriptive quantitative research design was used for the study, which focused on the 346 employees of the county government of Baringo. Data was collected using structured questionnaires which were distributed using simplified sampling to the employees of the county. The sampling frame that was used was the employee register. A sample of 128 employees from the population was conveniently sampled which comprised of all departments at the county. A pilot test was carried out at Nakuru county government to test reliability and validity of the research instrument. The completed questionnaires were keyed in the SPSS 24.0 statistical software and data was analyzed for descriptive statistics. Statistical inferences were drawn by the use of ANOVA (Analysis of Variance) and cross tabulation between the dependent variable, Personal Investments and the independent variable Financial Literacy. The results findings showed that majority of respondents invest a substantial percentage of their income. This shows that those with low financial literacy than those who had high financial literacy. The results carried out on ANOVA test showed that choice of investment had a significant relationship with financial literacy. The study recommends that the employer should make a plan to take their employees through yearly financial literacy training programs as this will not only be beneficial to the personal lives of employees, but also the organization as the employees will be in a better position in managing their funds.

Key words: Financial literacy, personal financial management

INTRODUCTION
1.0 Background of the study
Financial literacy, according to its most basic definition, is the capacity of a person to make wise decisions about the use and management of money (Agarwalet al, 2019). Financial literacy can either be broadly or specifically defined. A general definition of financial literacy includes a "understanding of economics" and how economic circumstances influence decisions made by households. According to Harrison (2020), a limited definition of financial literacy concentrates on fundamental financial management strategies like budgeting, saving, investing, and insurance. According to Llewellyn (2015), a person with financial literacy would exhibit four key skills: an understanding of fundamental financial concepts, practical knowledge of financial institutions, systems, and services, a variety of specialized and general skills (analytical and synthetic), and attitudes that support effective and responsible management of financial affairs.

Global perspective
Numerous researchers' studies conducted in the United States of America have revealed that just a small percentage of households actually apply the advised financial management techniques. One could use these methods to describe personal financial management. These include asset accumulation, account ownership, credit use, and budgeting and cash flow management (Frankel & Wallen, 2020). Numerous nations have recognized the importance of personal financial education, and the need for it is well-supported by recent academic studies. For instance, Gunnarsson & Wahlund (2017) researched financial literacy in Germany and discovered that women, people with low levels of education, those living in East Germany, particularly people with low levels of education and money, lacked comprehension of fundamental financial concepts.
1.1 Statement of the Problem
Many people fail to understand how financial literacy relates to good personal money management practices. Only 39% of bank account holders worldwide are financially educated, according to the 2017 Standard & Poor's global financial literacy study. The survey featured questions that touched on the concepts of risk diversification, inflation, numeracy, and compound interest. The study also reveals that just 29% of people in major emerging economies who maintain bank accounts—out of those who own accounts, 59%—are financially literate. Despite having a bank account, it’s challenging for persons without financial knowledge to access financial services, which frequently results in bad financial decisions, especially for those who are already struggling financially.

Only 41% of Kenyans, according to the survey’s findings, understand the need to diversify their risks, are aware of inflation, and can calculate interest. Due to the amount of Kenyans who utilize loans to pay for their daily expenses, this is a cause for concern. According to a study by Dholakia, (2014), 57.3% of Kenyans use credit to pay for their daily expenses, but just 15.8% and 14.7% utilize loans to invest in businesses or homes/land, respectively. Only 11% of Kenyans have completed tertiary education, according to CBK (2018). The study also revealed that the proportion of Kenyans using investment products has decreased from 11.6% in 2013 to 10.6% in 2016.

1.2 Purposes of the study
This study's objective was to assess the influence of financial literacy and its influence on employee’s personal financial management among employees of county government of Baringo employees, Kenya.

1.3 Specific Objectives
i. To ascertain the influence of financial literacy on personal investments decision among employees of county government of Baringo , Kenya.

Research Questions
i. What is the influence of financial literacy on personal investment decisions among employees in county government of Baringo, Kenya?

LITERATURE REVIEW
2.0 Introduction
This chapter will cover theoretical review on managing personal finances and its relationship with financial literacy. The section gives direction of study goals focused on how financial literacy affects individual investment choices, savings habits, and debt management, as well as how these aspects relate to efficient personal financial management among employees in county government of Baringo. This chapter also shows the conceptual framework and recap of literature review.

Theoretical Review
Many behavioral hypotheses have been put out to try to explain connection between financial management and financial literacy. The dual-process theory, theory of planned behavior motivation and involvement theory will be examined in this study. These theories have been applied to comprehend and forecast human motivations, conduct, and demands.

2.1 Theory of Planned Behavior
The theory of planned behavior (TPB), which extends Estelami, (2018) theory of planned behavior to include the notion of financial literacy, provides an illustration of the connection between financial literacy and financial management practices. The Theory of Reasoned Action (TRA) (Llewellyn,2015) served as the foundation for TPB. The TRA guidelines state that attitudes towards a particular behavior and subjective norms, or the felt social pressure to do or not perform a behavior, are used to predict behavior in order to create a behavioral intention that influences actual behavior. The TPB was developed by Llewellyn (2015) by modifying the TRA.

In order to solve the problem of personal control that the original model was lacking, perceived behavioral control (PBC) was added to help form behavioral intentions and actual behavior. The apparent ease or difficulty of carrying out a conduct is referred to as perceived behavioral control, and it is assumable to reflect past experiences as well as predicted barriers and hurdles. The relationship between attitudes, subjective norms, perceived behavioral control (PBC), and actual behavior is mediated by the TPB theory, which combines attitudes towards the behavior, subjective norms, and PBC.

2.2 The Dual- process Theory of Financial Functioning
According to dual-process theories, there are two ways that people receive information: reflexive, which is energizing, largely unconscious, automated, and has a high capacity, and reflective, which is sophisticated, conscious, and purposeful (ILO, 2018). Depending on the degree of balance or self-concordance exhibited by or fostered by people, the systems operate parallel to one another and may be cooperative or competing (Frankel and Wallen 2019). While the reflective system is deliberate, analytical, controlled, cognitive, conscious, and interested in abstract reasoning, the
reflexive system is founded on emotion. Financial literacy is determined by how much reflexive vs. reflective systems influence people's financial decisions and actions. People with more developed reflexive systems have impulsive and passionate financial activity. People with weak reflexive systems are observed to attend to and feed on financial want, for example, by compulsive buying or watching television ads, which heightens financial appetites.

2.3 Empirical Review
Financial Literacy's Impact on Individual Investment Decisions

2.3.1 Investments
Investments play a significant role in a person’s personal financial plan. Investments are made by people to increase their wealth in the future. According to Davies & Lea, (2015) money that is stashed away serves no purpose for the owner and should instead be used for more lucrative endeavors. This implies that one must invest savings in order for them to generate a return. A commitment of funds to one or more assets that will be retained over an investing horizon constitutes an investment, according to CBS (2018). Savings accounts, money market funds, real estate, equities, and bond investments are just a few examples of investments. As people live longer and personal incomes are not increasing very quickly, Beckett et.al (2020) emphasize that investment is essential and more crucial than ever, the labor market is changing and self-directed retirement plans are now the norm.

2.3.2 Financial Literacy and Personal Investments
Borg & Gall, (2019) emphasize that fund managers can make better investment decisions with their money and reduce the likelihood of being misled about financial matters by having financial literacy knowledge of the risks, investment portfolio, returns, and portfolio diversification. Researchers Dholakia (2014) conducted a study with the goal of identifying the key personal financial literacy concerns and knowledge gaps among the workforce. Retirement planning and basic personal finance knowledge were rated as important topics by participants in a survey of benefit administrators in 212 U.S. companies. Other crucial areas of personal finance management, like investment and real estate, also showed deficiencies in employee knowledge. The researchers also observed that, despite the shortcomings, the employees appeared to be knowledgeable about the business advantages. Abdullahi (2018) study revealed that household engagement in financial markets is modest. They discovered that investing income is significantly influenced by schooling. One more year of education increases the likelihood of reporting positive investment income by 3%. Aldlaigan and Buttle (2017) discovered that less financially literate investors are more prone to making assumptions and becoming emotionally invested in their financial market investing decisions. As a result, people choose investment techniques that are based on their own emotions and beliefs, which inevitably lead to failure. Beckett et al. (2020) discovered that momentum investors tend to be those who lack financial literacy. This says a lot about their emotional-based techniques that they employ. Emotional investing just exposes a person to riskier investments. For financial investing guidance, a lot of people turn to their friends, family, and financial experts. Ariely (2018) found that many families avoid the stock market because they lack knowledge about stocks and the stock market in their study of a representative sample of the Dutch population.

In their study of investor behavior in India, ILO (2016) discovered that investors are aware of the concepts of portfolio allocations and risk return of investments a crucial component of financial literacy for investors. Additionally, they discovered that the majority of their responders had college degrees or higher. The majority, or 80%, opted to save in banks, invest in gold, or hold mutual funds over other high risk avenues like real estate or stock, which is proof that their investing decisions were primarily low risk even if they were educated. The researchers came to the additional conclusion that investors consult with their friends or family before making a decision about an investment.

2.3.3 Conceptual framework

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Dependent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal investment choices</td>
<td>Financial management literacy</td>
</tr>
<tr>
<td>• Shares</td>
<td>• Level of investment</td>
</tr>
<tr>
<td>• Insurance</td>
<td></td>
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<td>• Bonds</td>
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<td>• Stocks</td>
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Figure 1: conceptual framework
Source own conceptualization (2023)

RESEARCH METHODOLOGY
3.0 Introduction
The aim of this research is to ascertain the relationship between financial literacy and personal financial management among employees of the county government of Baringo. The research methods and study design are presented in this chapter. The research design, the target respondents, the sample, and the sampling methods were discussed in this chapter. Additionally, the methodologies for data collecting, investigation, and analysis were described.

3.1 Research Design
A research design, according to Kathuri (2018), can be described as a framework or blueprint for carrying out business research projects effectively. It explains the steps required for data collection, measurement, and analysis, which aids the researcher in structuring or resolving business research issues. A descriptive research design was selected as the methodology for this investigation. A descriptive research, according to Borg and Gall (2019), aims to respond to prompt inquiries regarding a current situation. It is argued that a descriptive research strategy also incorporates studies that offer preliminary information about the particular variables under investigation.

A descriptive study strategy, according to Kathuri, (2018), is intended to produce an accurate record of what is occurring in a particular circumstance with a particular population. The phenomenon of interest is not under the researcher's control. Instead, phenomena are watched (measured) as they take place in a context or at a certain moment(s) in time. In order to make predictions based on the amount of connection, the descriptive research design will be utilized to investigate the connection between various characteristics and investment decisions. The independent variable was the financial literacy, while the dependent variables were investments.

3.2 Sampling Technique
According to Kathuri, (2019), sampling techniques are the procedures used to select samples from a population, typically in a way that makes it easier to test a population-related hypothesis. A non-probabilistic sampling was used in the investigation. Non-probability sampling, as defined by Kathuri, (2019), is a sampling technique that does not provide a basis for calculating the likelihood of each item in the population being included in the sample. Non-probabilistic sampling has two benefits: cost effectiveness and convenience.

3.3 Sample Size
According to Borg & Gall (2019), a sample is a representative sample of the entire population. According to Cooper and Schindler (2014), the size of the sample should depend on the variation in the population parameters being studied and the level of estimating accuracy required by the researcher. A sufficient sample size guarantees accurate and complete information. The entire population was not investigated due to time and financial constraints. 346 members target population did not include seasonal workers. The Yamane (1967) formula was used to determine the sample size. According to Borg & Gall (2019), this formula delivers a sample size with established confidence and risk levels and simplified the process of calculating sample sizes. The procedure is shown below:

\[ n = \frac{(N)}{1 + (N^e)} \]

Where:

- \( n \) = Sample Size
- \( N \) = size of the population
- \( e \) = probability error of 10%

Therefore, \( n = \left\{ \frac{(346)}{1 + (346*0.1^2)} \right\} = 128 \)

Validity and Reliability of Instruments

3.4. Pilot Study
The piloted questionnaire was evaluated for clarity, and any questions that were judged to be insufficient or vague were changed in order to improve the research instrument's quality and increase its validity. The evaluation of the questionnaires was based on the responses provided. The identical instrument was administered to the same respondents again after a week. For the two sets of data to be considered reliable, the Pearson Product Moment Correlation was used, which is predicted to produce a coefficient of over 0.7 (Kathuri, 2018).

3.5 Data Analysis and Presentation
Data analysis is the application of reasoning to understand the data that has been gathered (Zikmund, Babin, Carr, and Griffin, 2013). The returned questionnaires were coded for all questions in respect to each research objective to ensure that processing of the data was done easily. The data collected was analyzed using quantitative method and descriptive analysis. According to Cooper and Schindler (2018), descriptive analysis involved the process of transforming raw data into charts, tables with frequency distribution, percentages to enable full interpretation of data. The Statistical Package for Social Sciences (SPSS) was used to analyze the data. Cross tabulation method was used to describe the relationship between the variables. Inferential statistics was used to examine the degree of variance between variables. The study employed the use of statistical frequencies like percentages to analyze the various differences in the population demographics. Mean and standard deviation were used in the study to determine the strength of various financial decisions showing the respondents in each section.

A multiple linear regression analysis model was used to examine how managing one's finances is influenced by
personal financial literacy. This is as described below.

\[ Y^* = \alpha + \beta_1 X_1 + \beta_2 + \varepsilon \]

Where:
\[ Y^* = \text{Financial Literacy} \]
\[ X_1 = \text{personal Investment} \]
\[ \varepsilon = \text{a continuously distributed variable independent of x, and the distribution of } \varepsilon \text{ is symmetric about zero.} \]

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction
This chapter shows the findings of the data collected in relation to the study. Data presentation and analysis as well as data interpretation is also captured in this chapter. Descriptive statistics analysis and inferential statistics will also be discussed. Based on the findings, the study looked at the influence of financial literacy on personal finance management among employees: case of county government of Baringo, Kenya.

4.2 Response Rate
The study’s sample was 128 employees from various departments in County government of Baringo, Kenya. Out of the 128 questionnaires issued out 119 were filled thus a response rate of 93%. This is considered appropriate for generalization of findings by Mugenda and Mugenda's (2008) as its above 60%. Non response rate was 7% comprising of 9 questionnaires which were not dully filled.

4.3 Reliability Analysis
The study findings showed a Cronbach's alpha of above 0.7 which is acceptable in all the three independent variables that is personal investments decisions, personal savings and personal debt management. Cronbach's alpha determined the average correlation of variables in the research instrument.

4.4 Bio Data
This study analyzed bio data of the respondents who participated in the research. The bio data looked at gender, age, marital status, job title, and education level and education field.

4.4.1 Gender response
The findings in 2 showed the respondent’s age. The results showed that majority of the respondents comprised of female gender comprising of 58% while 42% were males. This results that majority of employees shows in county government of Baringo, Kenya are females.

4.4.2 Source Financial literacy training
The research findings revealed that majority of the respondents gained knowledge of financial literacy from investment groups comprises of 35% followed by college of training which comprised of 27%. Those who gained knowledge on financial literacy from the media comprised of 20% while those who gained financial literacy from other sources not specified in the choices given comprised of 12% and the minority comprising of 6% gained financial literacy at work place. This reveals that there is a need to emphasize employees training on financial literacy to enhance personal financial management in the county government of Baringo, Kenya.

4.4.3 Financial Literacy test
The researcher findings on knowledge of financial literacy were carried out by carrying out a financial test on various financial aspects to the respondents. The results from simple interest computations revealed that majority of the employees scored it right comprising of 35%. The results on inflation computation effect on savings revealed that only 8% were able to compute it. On bonds and stocks only 7% were able to distinguish between the two showing that majority of the respondents are not conversant with security market. The results on bond pricing revealed that 15% responded correctly indicating that majority of the respondents are not aware about bond prices. The research findings on purchasing options whether on hire purchase or on loan basis only 3% responded showing that majority of the respondents are indifference on the option to take therefore a need for financial literacy education on hire purchase and loans to enable making the right option. The results on compound interest revealed that only 18% of the respondents had knowledge on stock, mutual and mortgage. This revealed that there is a need for financial literacy education on mutual, stocks and mortgage financing. The overall results revealed that majority of the respondents do not have financial education literacy.

4.5 Financial Literacy scores and Investment Decisions Cross tabulation
The researcher carried out a study on financial literacy tests. The results are as shown in table 1.

| Table 1: Total score between investment and Financial Literacy test |
The research findings showed that the respondents who scored 11% on the financial literacy quiz did not get involved in any form of investment. Those who scored the highest of 78% were involved in investments. This result reveals that financial literacy has an effect on making investment decision.

### 5.0 DISCUSSIONS, CONCLUSIONS, AND RECOMMENDATIONS

#### 5.1 Introduction

This section gives a discussion, conclusion and recommendations of the study findings.

#### Summary of Findings

This research was aimed to evaluate how financial literacy influence personal finance management among employees of county government of Baringo, Kenya. The study specific objectives were to ascertain how financial literacy influence personal investment choices; to determine how financial literacy influence personal savings; and to assess how financial literacy influence the various choices of personal debt.

The study adopted descriptive approach to examine how financial literacy influence personal finance management. The study targeted all the 346 employees at county government of Baringo, Kenya as at June 2023. To select the respondents, simple random sampling was used select the employees from the stratum. Yamane Formula was used to calculate the sample size which gave a sample size of 128 employees. Questionnaires were administered to collect primary data were self-administered. Data collected was analyzed using SPSS. The data was presented using frequency tables, pie charts to represent the various respondents’ bio data information. The median, mean and standard deviations of the various financial literacy variables scores were computed. To determine the existing relationship between the study variables, analysis of Variance was used.

**Financial Literacy influence on choice of investment**

The results revealed most the employees are involved in investments this agrees with the study done by Cole and Shastry (2019), who argued that the level of education has an influence on the choice of investment whereby those who have gone to high school level made a positive income form their investments.

#### 5.2 Conclusions

##### 5.2.1 Financial Literacy influence on choice of Personal Investment

The first objective of the study was to ascertain the influence of financial literacy on choice of personal investment. The study revealed that financially literate individuals had made investments in various investment options in comparison to those who scored low financially literate. This reveals that those who are financially literate fully understands the benefit of diversification of portfolio. This study makes a conclusion that financial literacy has an influence on the choice of investment choices by individuals.

#### 5.3 Recommendations

**Recommendations for Improvement**

The study recommends that the employer should make a plan to take their employees through yearly financial literacy training programs as this will not only be beneficial to the personal lives of employees, but also the organization as the employees will be in a better position in managing their funds and be in a position to advise their customers on the funds they keep with the bank, or on a loan they need to take out from the bank. Financial literacy and sound financial management practice has been observed with the respondents working at managerial levels, and thus the similar practices should be employed by employees at lower levels. This will be beneficial to the organization as well as the employee.

**Personal Finance Management on Employees Personal Investments**

This study makes a recommendation that financial literacy skills are an important aspect when making a choice of an
investment on personal financial management. Therefore, employees should practice diversification when making investment options for optimum returns.

REFERENCES: