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INFLUENCE OF FINANCIAL LITERACY ON FINANCIAL MANAGEMENT PRACTICES: A SURVEY OF DAIRY FARMERS MANAGED BY K-UNITY SACCO IN LIMURU SUB COUNTY, KIAMBU COUNTY.

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Abstract

The purpose of this research was to investigate the influence of financial literacy on financial management practices; a survey of dairy farmers managed by K Unity SACCO in Limuru sub county, Kiambu county. The objective of the study was to investigate how financial literacy affects financial management of persons operating in the informal sectors in this case looking at dairy farmers. The researcher sought to find out whether investment practices, saving culture, budgeting practices loan management and the planning of unexpected expenses does affect financial management practices. The field of financial literacy has been understudied more so in the developing economies, and especially in the informal sector. The researcher targeted dairy farmers managed by K Unity SACCO. The researcher adopted descriptive research design to study 375 dairy farmers drawn from a population of 6000 dairy farmers. The study used structured questionnaire which were administered with the help of 5 research assistants using structured interviews. The researcher conducted a pilot test of 20 questionnaires in order to ensure that the questions to be asked were relevant, valid and reliable. Data analysis was done using Statistical Package for Social Scientists (SPSS) to generate descriptive statistics (frequencies, percentages, cross tabulations) that were presented on figures and tables. Further analysis was done using inferential analysis. The study revealed that there was positive relationship between investment practices and financial management of dairy farmers in Kenya. Financial management of dairy farmers in Kenya was found to be significantly influenced by saving culture. The study established that budgeting practices positively influence financial management of dairy farmers in Kenya. The study found that debt management practices will positively influence financial management of dairy farmers in Kenya. The study recommends that the management of K Unity Sacco should considered offering investment training to their members before disbursement of loans. The study recommends that employees should use their financial literacy knowledge and experience gained in the Sacco society to develop a saving culture. The study therefore recommends that the management of K Unity Sacco should create awareness to its members in the effects of debts on their finances and how they can manage their debt in a realistic manner and understand the cost of their.

Keywords: Investment Practices, Financial Management, Saving Culture, Budgeting Practices, Debt Management Practices, Planning of Unexpected Expenses and Dairy Farmers.

Introduction

The theory of microeconomics explains that a well informed and rational consumer will expend less than his income when his income is high so as to use the savings when the level of income falls (Lusardi & Mitchell, 2014). In this study the researcher takes the theory to mean that financial literate consumers will be able to practice good personal management practices such as; drawing a personal budget, saving constantly, good debt financing as well as planning for any disasters by embracing insurance.

Financial literacy has become an area of interest for almost all individuals in all spheres of life in the recent past due to the global changes in the financial fields. The term ‘financial literacy’ can include concepts ranging from financial awareness and knowledge, including financial products, institutions and concepts; financial skills such as the ability to calculate interest payments and financial capability in terms of money planning (Xu & Zia, 2012). The authors further explain that financial literacy can have different meanings depending on the level of income of a country. In high income countries, it is understood to be a complement to consumer protection and the primary goal of financial education is to equip individuals with the ability to understand different financial products. Financial literacy is usually defined as the ability of a person to make good decisions in managing their income. It can be referred to as an understanding of how money works in the day to day life (Deng, Chi, Teng, Tang, & Chen, 2013). The definition of financial literacy adopted in this study is adapted from(Lusardi & Mitchell, 2014). Financial literacy is people’s ability to use financial information and make well informed choices about budgeting, saving, debt management and use of hedging practices. It is of crucial importance to undertake the study on whether financial literacy is really important.

Its importance was identified during the recent financial crisis in the developed countries. According to (Kebede, Kaur, & Kuar, 2015), people even in developed countries lacks basic knowledge, skills and attitude for optimal personal financial management decisions and this creates a necessity for financial literacy and financial management policies to be adopted. In the developing countries, however. Financial literacy is limited and only a small per cent of the population have access to sophiscated consumer financial products. This is made worse by the fact that majority of people in these countries rely on informal employment and hence don’t take financial lessons seriously.

Financial literature facilitates the decision-making processes such as payment of bills on time, proper debt management which improve the credit worthiness of potential borrowers to support livelihoods, economic growth, sound financial systems, and poverty reduction. It also provides greater control of one’s financial future, more effective use of financial products and services, and reduced vulnerability to overzealous retailers or fraudulent schemes. Facing an educated lot, financial regulators are forced to improve the efficiency and quality of financial services. This is because financially literate consumers create competitive pressures on financial institutions to offer more appropriately priced and transparent services, by comparing options, asking the right questions, and negotiating more effectively (Wachira & Kihiu, 2012) .

Financial management refers to how an individual acquires finances and how he effectively plans the utilisation of the acquired funds (Paramasivan & Subramanian, 2009). In this study the author takes the objectives of personal financial management to be two; to maximize personal wealth and to increase the savings of an individual. Financial management can be related to financial literacy because if a person if financially literate he will adopt the financial management practices in his day to day life. In order for a person to have good financial management, financial knowledge and for this purpose financial literacy is paramount (Dwiastanti, 2015). When an individual has financial literacy, he will be smarter in managing his personal finances so as to achieve personal prosperity.

Good expenditure practices refer to having a clear and defined way of how an individual will expend his income. It means creating a budget for his expected expenses. A budget is a plan for spending and saving the excess funds one has (Davis & Carr, 1991). According to (Dwiastanti, 2015), it is of crucial importance to have a spending plan and the discipline to stick to that plan so as to achieve the financial targets made. It can only happen if one is financially literate. Financial literacy has a positive impact to budgeting practices.

Investing is the act of purchasing an asset or item with the hope that it will generate income or will appreciate in the future. Financial literacy is directly related to the well-being of individuals and people with low levels of literacy will have problems identifying viable investment opportunities (Bhushan & Pardesh, 2014). The importance of the role of financial literacy in making sound investment decision cannot be overlooked. Saving is the decision that one makes to keep the surplus funds for use in future. Making this decision to save the surplus funds for later use is a decision which only those who are financially literate can make. Saving decisions are very crucial in reallocating income across periods but this decision may be hindered by low level of financial literacy in an individual. Unexpected expenses are those expenses which are not foreseen and therefore one is unable to plan for them. In this study they include the losses which can be brought about by unfavourable climatic conditions and also diseases outbreak. To hedge against this expenses, one needs to insure his products and this calls for an understanding of how the system works and therefore the importance of financial literacy (Dalkilic & Kirkbesoglu, 2015).

K unity is a saving and credit co-operative society taking the deposit-making business. K-unity Sacco is the umbrella organization for dairy & pyrethrum societies in the larger Kiambu County. Its core business is banking. Other businesses include insurance, properties investments and investments in securities. Over the decades, notable achievements and endeavours have been accomplished by K Unity in the year 2004 all the banking operations were computerized. In 2005, the SACCO attained a Ksh. One billion in deposits, in the year 2011 the SACCO rebranded to k unity Sacco from Kiambu Unity Finance Cooperative union in compliance with

SASRA regulations. The SACCO received the Certificate of authorization by SASRA to conduct deposit – taking business in the year 2011.

Statement of the Problem

Experts in investment and financial management often say that ignorance is the greatest risk in investment and financial management (Deng *et el.,* 2013). Experts also generally agree that people lack the financial literacy necessary to make important personal financial decisions in their own best interests. Thus, it is known that when carrying out financial management there should be considerable cultivation of financial management knowledge. The topics of financial literacy have been under studied; more so in the developing economies. The researchers however do agree that most of consumers lack the financial literacy required to make important financial decisions for their own sound financial health (Mandell & Klein, 2009). According to (Dwiastanti, 2015) financial literacy is crucial for a person to manage his income to achieve personal prosperity. This can only be achieved when one has smart financial behaviour which enables one to adopt the skills and confidence in using knowledge to identify financial products and services. When one lacks the financial literacy, the individual is bound to fail to plan his finances. According to (Deng et al., 2013), financial literacy appears to be directly correlated with financial self-beneficial behaviour Mounting evidence shows that those who are less financially literate are more likely to have problems with debt, are less likely to save, are more likely to engage in high-cost credit, and are less likely to plan for the future.(Kefela, 2011) Financial literacy enables people to make better financial decisions, to appreciate their rights and responsibilities as consumers of financial products, and to understand and manage risks. A lack of financial literacy can contribute to the making of poor financial choices that can be harmful to both individuals and communities. In the informal sector particularly in farmers, the concept of financial literacy is often ignored, and this is reflected in poor financial management and there is therefore a need to study the same.

Objectives of the Study

The study was guided by the following specific objectives

i. To determine the relationship between investment practices and financial management of dairy farmers in Kenya.
ii. To establish the effect of saving culture on financial management of dairy farmers in Kenya
iii. To find out the effect of budgeting practices on financial management of dairy farmers in Kenya.
iv. To establish the effect of debt management practices on financial management of dairy farmers in Kenya
v. To find out the effect planning of unexpected expenses on financial management of dairy farmers in Kenya.

Theoretical Orientation

This section undertook an in-depth analysis of each of the theories identified within the previous section with an aim evaluating their impacts in improved financial education as a way of shifting overall understanding of financial management practices.

Social Learning Theory

Navickas, Gudaitis and Krajnakova (2014) posit the fact that using the social learning theory, it is much easier for individuals to experience a major shift in terms of their personal behaviours on the area of financial management based on specific social factors including specific sources of information and financial advice. The financial perceptions people have on their environments when engaging in specific business or personal activities act as the key drivers of financial management practices. In this case, the engagement of farmers in Kiambu County in dairy farming provides them with a clear understanding of the importance of having to engage in effective financial management practices. Through social interactions, people find it easier in gaining the expected information that would allow them to gain the requisite abilities to make positive financial decisions. Based on this theory, investors have a higher possibility of making investment decisions that would have positive financial impacts based on access to information. That would support the need for having to engage with social learning theory as a key theory focused on improved financial literacy as part of improving the financial management practices.

Psychosocial Theory

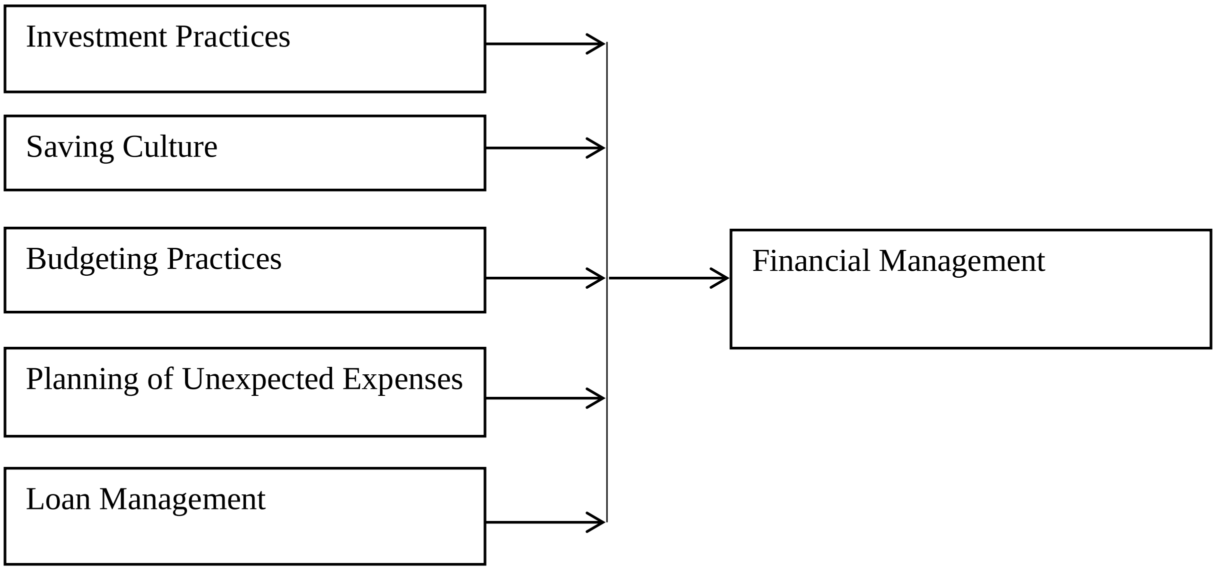
Another key theory that is important to understand is the psychosocial theory, which is a theory focused on specific conflicts arising during the course of development that may have an impact on one's financial behaviours (Mandell & Klein, 2007). Some of the key issues in development that are important in defining financial literacy include trust, will, and self-regulation each of which focus on a specific aspect of the decision-making processes. In financial security, one must incorporate the element of trust for financial institutions, which would act as a guarantee of success towards ensuring that one makes the expected financial decisions. Ultimately, this would point to the fact that trust is one of the crucial elements that define the financial decisions that one would make especially when faced with two or more decisions. The psychosocial theory highlights financial literacy as part of the preadolescent stage during which time teenagers and young adults are able to gain basic information on how they would establish their financial decisions (Kefela, 2010). In this case, dairy farmers ought to develop some level of trust for K-Unity Sacco, which would provide them with a higher capacity of making financial decisions that would reflect on the mission and vision of the Sacco.

Financial Literacy Theory

Mandell and Klein (2009) suggest that the financial literacy theory helps in describing financial knowledge gained as part of one's investments attributed to the fact this would pave the way for one to establish a front for having to make well-informed financial decisions. Largely, the idea of improved financial literacy may have a positive impact towards shaping the nature in which an economic structure is designed. Application of the financial literacy theory to dairy farmers in Kiambu County, this would provide them with that basic sense of understanding of how they ought to approach the issue of financial decision-making. In the long-term, this would be of value in defining their individual policies on issues associated with finance, which would enhance the possibilities of achieving their intended vision. The issue of financial literacy does not only affect developing countries, such as Kenya, but also touches on some of the developed countries eliciting interests on areas of investment. Thus, this means that understanding or evaluating the influence of financial literacy on financial management practices would not only bring to floor the possibilities of success on a social front but would also translate to a strong economic foundation.

Conceptualization

The conceptual framework seeks to create a link between the findings from the empirical review with some of the key considerations in the topical area, which in this case focuses on financial literacy and financial management practices. The utilization of the conceptual framework may help provide readers with that basic understanding of how they ought to approach the issue of financial literacy. Based on the expectations from the study, it is evident that engagement in financial education helps in promoting that overall platform for individuals to achieve better financial literacy. Financial literacy provides individuals with that avenue for having to make sound decisions that would reflect on the expected positions regarding the need for improved investment (Shambare & Rugimbana, 2012). Ultimately, this would mean that financial literacy might have a significant impact on one's ability to make sound investment decisions reflecting on enhanced financial outputs based on higher profit margins. Financial literacy may provide individuals with a better understanding of what to expect through introduction of new financial management practices (Mandell, & Klein, 2007). One of the key challenges in creation of effective financial management practices is the fact that most people do not have the knowledge that would allow them weigh in on their impacts of their practices. However, this may change significantly through financial literacy focused on providing them with a better sense of understanding on what they ought to expect as part of their strategies to dealing with financial management.



Independent variables **Dependent variables**

Figure 1: Conceptual Framework

Research Methodology

Descriptive research design was adopted in the study. The target population of this study was both the active dairy farmers of K Unity SACCO. The sample size of the study was 375 dairy farmers.

Table 1: Sample Size

Sacco Branch	Total Population	Sample Ratio (%)	Sample Size
Limuru branch dairy farmers	4000	0.0625	250
Kiriita branch dairy farmers	2000	0.0625	125
Total	6000	0.0625	375

The data was collected from the respondent is data that touches on the effects of financial literacy on financial management of members of K Unity SACCO. The researcher collected this data using questionnaire as the sole data collection tool. Descriptive and inferential statistics were used in data analysis. The information was displayed by use of bar charts, graphs and pie charts and in prose-form.

Research Findings and Discussion

Descriptive and inferential statistics have been used to discuss the findings of the study. The study targeted 375 dairy farmers of K Unity SACCO. 350 of the respondents filled and returned the questionnaire, forming a response rate of 93%. A response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent (Mugenda & Mugenda (2008). Hence in our case the response rate is excellent.

Correlation Analysis

Table 2: Correlation Coefficient

		Financial Management	**Investment Practices**	**Saving Culture**	**Budgeting Practices**	**Debt Management Practices**
Financial management	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	350				
Investment practices	Pearson Correlation	.889	1			
	Sig. (2-tailed)	.002				
	N	350	350			
Saving Culture	Pearson Correlation	.530*	.636	1		
	Sig. (2-tailed)	.005	.001			
	N	350	350			
Budgeting Practices	Pearson Correlation	..967	.893	.168**	1	
	Sig. (2-tailed)	.001	.002	.009		
	N	350	350	350	350	
Debt Management Practices	Pearson Correlation	.439	.547**	.676	.435	1
	Sig. (2-tailed)	.009	.004	.003	.005	
	N	350	350	350	350	350

***. Correlation is significant at the 0.05 level (2-tailed).**

The results revealed that there was a strong positive correlation between Investment practices and financial management of dairy farmers in Kenya as shown by r = 0.889, statistically significant p = 0.008<0.01; there was a positive correlation between saving culture and financial management of dairy farmers in Kenya as shown by r = 0.530, statistically significant p = 0.008; there was a positive correlation between budgeting practices and financial management of dairy farmers in Kenya as shown by r = 0.967, statistically significant p = 0.002; there was a positive correlation between debt management practices and financial management of dairy farmers in Kenya as shown by r = 0.439, statistically significant p = 0.003. This implies that investment practices, saving culture, budgeting practices and debt management practices with financial management of dairy farmers in Kenya are related.

Regression Analysis

Model Summary

Model summary is used to analyse the variation of dependent variable due to the changes of independent variables. The study analysed the variations of financial management of dairy farmers in Kenya due to the changes of Investment practices, Saving Culture, Budgeting Practices and Debt Management Practices.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.835[a]	.697	.645	.02103

Adjusted R squared was 0.835 implying that there was 83.5% variation of financial management of dairy farmers in Kenya due to the changes of Investment practices, Saving Culture, Budgeting Practices and Debt Management Practices. The remaining 16.5% imply that there are other factors that lead to smooth dispute resolution by trade unions which were not discussed in the study. R is the correlation coefficient which shows the relationship between the study variables. From the findings, the study found out that there was a strong positive relationship between the study variables as shown by 0.835.

Analysis of Variance

The analysis of variance ANOVA was used to determine whether the data used in the study is significant. From the ANOVA statistics, the processed data (population parameters) had a significance level of 0.05. This shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%.

Table 4: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	18.423	4	4.606	16.948	.038[b]
	Residual	94.842	349	2.851		
	Total	**1013.266**	**353**			

The F calculated was greater than F critical (16.948< 2.3975). This shows that Investment practices, Saving Culture, Budgeting Practices, and Debt Management Practices significantly influence the financial management of dairy farmers in Kenya.

Beta Coefficients

The regression equation was

$Y = 0.617 + 0.431X_1+0.391X_2 + 0.418X_3 + 0.341X_4$

The equation above revealed that Investment practices, Saving Culture, Budgeting Practices and debt management Practices, the variables will significantly influence financial management of dairy farmers in Kenya by constant =0.617 as shown in Table 5.

Table 5: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.617	0.114		5.41	.000
	Investment practices	0.431	0.065	.301	6.63	.001
	Saving culture	0.391	0.084	.293	4.65	.010
	Budgeting practices	0.418	0.067	.323	6.24	.002
	Debt management practices	0.341	0.081	.263	4.20	.020

Investment practices was statistically significant to financial management of dairy farmers in Kenya as shown by ($\beta = 0.431$, $P = 0.001$). This shows that investment practices had significant positive relationship with financial management of dairy farmers in Kenya. This implies that a unit increase in investment practices will result to increase in financial management of dairy farmers in Kenya. Saving Culture was statistically significant to financial management of dairy farmers in Kenya as shown by ($\beta = 0.391$, $P = 0.010$). This shows that saving culture had significant positive relationship with financial management of dairy farmers in Kenya. This implies that a unit increase in saving culture will result to increase in financial management of dairy farmers in Kenya.

Budgeting practices was statistically significant to financial management of dairy farmers in Kenya as shown by ($\beta = 0.418$, $P = 0.002$). This shows that budgeting practices had significant positive relationship with financial management of dairy farmers in Kenya. This implies that a unit increase in budgeting practices will result to increase in financial management of dairy farmers in Kenya. Debt Management Practices was statistically significant to financial management of dairy farmers in Kenya as shown by ($\beta = 0.341$, $P = 0.020$). This shows that debt management practices had significant positive relationship with financial management of dairy farmers in Kenya. This implies that a unit increase in debt management practices will result to increase in financial management of dairy farmers in Kenya.

Conclusions

Investment practice was found to significantly influence financial management of dairy farmers in Kenya. The study also revealed that there was positive relationship between investment practices and financial management of dairy farmers in Kenya. Financial management of dairy farmers in Kenya was found to be significantly influenced by saving culture. The study also revealed that there was positive relationship between saving culture and financial management of dairy farmers in Kenya. Budgeting practices was found to significantly influence financial management of dairy farmers in Kenya. The study also revealed that budgeting practices positively influence financial management of dairy farmers in Kenya. Debt management practices were found to significantly influence the financial management of dairy farmers in Kenya. The study also revealed that there was positive relationship between debt management practices and financial management of dairy farmers in Kenya.

Recommendations

The study recommends that the management of K Unity Sacco should considered offering investment training to their members before disbursement of loans; this will help in improving members financial management skills. The study recommends that employees should use their financial literacy knowledge and experience gained in the Sacco society to develop a saving culture; this will improve their financial management. The study found debt management practices affects financial management positively. The study therefore recommends that the management of K Unity Sacco should create awareness to its members in the effects of debts on their finances and how they can manage their debt in a realistic manner and understand the cost of their.

Suggestion for Further Studies

This study focused on relationship between personal financial management and financial literacy of dairy farmers in Kiambu County. The study suggests similar study to be done in other farming sectors such as poultry Farming in Kiambu County. The study further recommends that a similar study should be done in other counties in the country. The study also recommends that a study should be done on the challenges facing the adoption of financial literacy programs offered by SACCOS in Kenya.

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