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EFFECT OF FINANCIAL LITERACY ON THE FINANCIAL MANAGEMENT PRACTICES OF EMPLOYEES OF PUBLIC PRIMARY SCHOOLS IN MOMBASA COUNTY, KENYA.

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ABSTRACT

The study sought to establish the effect of financial literacy on financial management practices of employees of public primary schools in Mombasa County, Kenya. Specifically, the study focused on; savings and investment literacy, debt literacy, retirement literacy and taxation and insurance literacy. The study adopted a descriptive study design and a population of 2101 from which a sample of 336 employees were engaged in the study. Data was collected by use of questionnaires. Regression and correlation analysis was done to establish the relationships between the study variables. The study established that; savings and investment literacy has a weak positive and insignificant correlation to financial management practices; retirement literacy has a strong positive and significant correlation to financial management practice; debt literacy has strong, positive and significant correlation to financial management practices and taxation and insurance literacy had a strong, positive and significant correlation to financial management practices The overall finding was that financial literacy has a strong positive correlation to financial management practices. Therefore, there is a strong correlation between financial literacy and the financial management practices of employees of public primary schools in Mombasa County, Kenya. The study recommends; adoption of financial literacy programs for non-teaching staffs in public primary schools; teacher's service commission to lobby financial professionals and trade associations to sensitize their members on sound financial management matters.

Key words: Financial Literacy, Public Primary Schools, Management Practices.

1.0 Introduction

According to Nye & Hillyard (2013) the term financial literacy denotes a level of understanding for an individual's acquisition, spending, saving and investing their finances. The level of understanding for an individual can be attributed to their standard of education, in most cases highly educated people are perceived to be financially literate; however, this is not the case most of the times. Making financial decisions needs a lot of considerations from personal, economic and social factors. To make better decisions, an individual is required to gain knowledge through training and experience so that they can make decisions for their financial needs (Lusardi, 2008).

Financial literacy is important since its absence can render individuals unable to manage their financial welfare, this may lead to consequences of poor financial management :such as failure to participate in stock markets, failure to save and invest, this can affect the welfare of the individual and the society, although experimental financial learning maybe of importance since it is self-correcting it may not be applicable to some practices such as saving for retirement, health insurance and investing in education since they have delayed outcomes that are subject to random shocks (Hastings, Madrain & William,2003). Using this denotation, individuals can be classified according to their understanding of financial concepts. While those with less understanding are encouraged to seek knowledge and education, it's also advisable for those with good understanding to improve their practices through training. Better understanding of financial concepts can be learnt in a classroom, the lecture hall and through experience (Kasser & Kanner, 2004).

A good understanding of financial practices enhance decision making and prepares individuals and organizations for financial challenges. It is through knowledge that an individual can decide on what financial products are suitable for them and the cost they will incur (Kim, 2007).Individuals who understand financial management are able to resolve financial problems when balancing needs and demand, long term planning and monthly budgeting, this ensures they don't spend beyond their earnings. They are in a position to decide best way to deal with their financial problems such as servicing their debt and spending as per their budget plans. A person with better understanding on managing finances is better positioned to use knowledge learned in making financial decision (Lorgat, 2003). Good financial practices instigate the need to seek more knowledge and understanding all the times. The financial markets and the economy in general rapidly changes and new opportunities and challenges present themselves to all the people (Vitt, Reichbach & Siegenthaler, 2006).

1.1 Research Problem

Employees in primary schools are faced with numerous problems that hinder their performance in schools. Most of the hindrances can be connected to money problems, such as; insufficient funds to take care of their personal and family needs, borrowing to survive and little to invest that has led to dependence on salaries for survival. The employees also assume that the statutory savings in pension and security schemes can guarantee them full financial well being when they retire. Most of these employees fail to understand that their future depends on effective management of savings and investments when they are actively involved in the office (Murithi, 2012).Most of them undergo stress and anxiety after retirement due to lack of salaries, with them having only one job experience of teaching it becomes a challenge for them to get part time jobs in the business world. Majority of them do not receive their pension payments immediately, this leaves them disillusioned due to lack of an alternative source of income for the upkeep of their families (Githui, 2012). Informed and financially educated individuals are in a good position to make financial decisions for their families which ensures their well-being and that of the community as well (Hilgert and Hogarth, 2017).It's therefore important to provide financial education before individual make financial decisions and get committed to financial contracts (Lusardi et al, 2010).

Kariuki (2012) who studied the effect of financial literacy on the financial decisions of micro finance institution clients in Embu County observed that the low level of financial literacy of the clients had made them poorer. Garang (2016) from his study concluded that financial literacy positively affect the investment decisions of employees of financial institutions in Juba City South Sudan, since financial literacy concepts such as risk and diversification are useful in making investment decisions. Navickas, Gudaitis and Krajnakova (2014) established from their study on Lithuanian population that low levels of financial literacy, lead to excessive spending, lower savings, rates and lower investment returns. Lusardi, Mitchell & Curto (2010) concluded from their study that the level of education had an effect of the financial literacy of the youth, with their educated counterparts being more literate than the uneducated. Njehia (2014) concluded that the employees of Mumias Sugar Company had financial knowledge and they generally applied it in their financial management practices. From the studies reviewed, it's evident that; a study of the effect of financial literacy on financial management practices should be conducted on individuals in various segments since there are very few studies in this area. This study therefore attempted to fill the research gap, by providing an answer to the question; what is the effect of financial literacy on the financial management practices of employees in public primary schools in Mombasa County?

1.2 Objective of the study

To determine the effect of financial literacy on the financial management practices of employees in public primary schools in Mombasa County, Kenya.

2.0 METHODS

The study adopted a descriptive research design. The population for this study comprised of employees from 90 public primary schools in Mombasa County that summed up to 2,101 (TSC, 2018). Data was collected by use of structured questionnaires.

Correlation analysis was performed and a regression analysis was also done so as to determine the relationship between the independent and dependent variables. The regression model used was:

$Y= \alpha+ \beta_1X_1 + \beta_2 X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$

Where the: Y = Financial management practices

α = Constant Term

β_1= Beta Coefficients

X_1= Personal investment /Savings literacy

X_2= Personal retirement literacy

X_3= Personal debt literacy

X_4=Level of education

ε= Stochastic error term.

3.0 RESULTS

Table 4.13: Correlation analysis

	FMP	SIL	RL	DL	TIL
FMP	1				
Sig					
SIL	.111	1			

Sig	.198				
RL	.574	.241	1		
Sig	.000	.031			
DL	.532	-.037	.582	1	
Sig	.000	.389	.000		
TIL	.660	-.256	-.911	-.623	1
Sig	.000	.023	.000	.000	

Keys

FMP: Financial Management Practice **SIL**: Savings and Investment Literacy

RL: Retirement Literacy **DL**: Debt Literacy **TIL:** Taxation and Insurance literacy

As presented in table 1 above, it's evident that the linear correlation is substantial with a significance of 0.00 between the independent variables; debt literacy, retirement literacy and taxation / insurance literacy on financial management practices. From analysis, findings reveal coefficient of correlation, 0.574, 0.532 and 0.660 for retirement literacy, debt literacy and taxation / insurance literacy respectively. This shows that there is relatively strong positive relationship between independent variables and dependent variable. This implies that an improvement in debt literacy, retirement literacy and taxation / insurance literacy will result to effective financial management practices of the targeted employees. Savings and literacy has a correlation of 0.111 and significance of 0.198. This indicates that it has a weak insignificant correlation with financial management practices although it impacts on it positively since it has a positive beta co-efficient in the regression model. The employees should therefore be made more aware of the savings and investments.

Regression was done to assess the strength of the relationship that exists between study variables. It was utilized to assess the strength of the relationship that exists between the variables and for modeling the future relationship between them.

Table 2: Regression Model Summary

Model R	R-Square	Adjusted R Square	Std. Error	Sig. F	Durbin-Watson
0.728a	0.530	0.496	2.74396	0.000	0.897

From table 2 above; it can be observed that the R-square value of the variable is .530 which reveals that savings and investment literacy, debt literacy, retirement literacy and taxation / insurance literacy can explain the variation of financial management practices by 53%. It's evident that other factors affect financial management practices of public primary school employee's in Mombasa; however, these were not covered by the study which can be explained remaining percentage of 47%. R indicates the correlation between the variables and the value 0.78 shows a positive correlation between the dependent variable and the predictor variable.

Table 3: Regression co-efficient

Model	Unstandardized Coefficients		Standardized Coefficients	t	sig	95% confidence level	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	4.188	1.450	1.142	2.888	.000	4.011	4.365
SIL	.430	.154	.274	2.792	.007	.4120	0.4480
RL	.141	.200	.156	.705	.048	.1390	0.1430
DL	.144	.154	.114	.935	.0351	.1270	0.1610
TIL	.703	.206	.801	3.413	.001	.687	0.719

Keys

SIL: Savings and Investment Literacy

RL: Retirement Literacy

DL: Debt Literacy

TIL: Taxation & Insurance Literacy

From table 4.26 above, it can be observed that the study had an intercept of 4.188 which means that when all the independent variables are at zero, financial management practices will be at 4.188; all the independent variables i.e Savings and Investment, Retirement, Debt and Taxation & insurance Literacy were found to have a positive relationship with financial management practices.

Y: $4.188 + .430 X_1 + .141X_2 + .144X_3 + .703 X_4$

Y: Financial Management Practices

X_1: Savings and Investment Literacy

X_2: Retirement Literacy

X_3: Debt Literacy

X_4: Taxation & Insurance Literacy

From the above regression results, it can be deduced that taking all the other independent variables at zero(absent)a unit change in Savings and Investment Literacy influences Financial Management Practices by 0.430, a unit change in Retirement Literacy influences Financial Management Practices by 0.141, a unit change in Retirement Literacy influences Financial Management Practices by .144 while a unit change in Taxation & Insurance Literacy leads to 0.703 changes in Financial Management Practices.

The standardized Beta coefficients indicate the contribution of each variable in the model, a unit that is large value indicates that the impact of the change of the predictor variable will be greater on the criterion variable. The t-values and the significance value (p) indicate the effect of the independent variable. A larger absolute t-value and a smaller p value indicates that the independent variable has a big impact on the dependent variable.

4.0 CONCLUSION AND RECOMMENDATION

4.1 Conclusion

The objective of the study was to determine the effect of financial literacy on the financial management practices of employees of public primary schools in Mombasa County, Kenya. It can be concluded that financial literacy significantly affects financial management practices of employees. Savings and literacy has a weak positive effect on financial management practices thereby indicating that improvements in these variables can improve the financial management practices of these employees.

4.2 Recommendation

The study recommends that; the teachers service commission 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 schools as the employees will be in a better position in managing their funds and be in a position to advise their students on good financial management practices. Teacher's service commission should seek partnerships with interested parties, for instance, universities and colleges, in provision of finance literacy courses for its employees. The role of Teacher's service commission will be to ensure that the courses offered have the suitable content especially relating to personal financial management practices. The other partners will be responsible for training and availing the appropriate facilities and venues. The partnerships should ensure that the courses are relevant in terms of content and are delivered in a practical and simplified mode.

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