

Basic Money Management Skills and Financial Decision Making: A Survey of Small Scale Trading Enterprises Owners in Kamwangi Market of Gatundu North Constituency in Kenya.

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Abstract

This paper examines the effect of basic money management skills and financial decision making. It is a survey of small scale trading enterprises owners in Kamwangi market of Gatundu north constituency in Kenya. The need for basic money management skills has become increasingly significant with the more accessible access to credit and the ready issue of credit cards. A descriptive research design was adopted. This was because the study was primarily focused on establishing Kenyans' basic money management skills and describing the critical variables associated with them. A sample of one hundred and sixty small scale trading enterprises owners was drawn as guided by the Yamane formula. Forty of the questionnaires were not returned, and attempts to follow them up were unsuccessful. Therefore, the results are based on the one hundred and twenty returned questionnaires produced. The data was collected by the use of the closed-ended questionnaire. The quantitative data were analysed using descriptive statistical methods. It was then presented employing frequency distribution methods involving tables and bar charts. Most traders do not possess basic money management skills from the study's findings. The county government should engage traders in basic money management skills through the relevant ministry.

Key Terms: Money management, financial decision making, small scale trading enterprises.

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INTRODUCTION

Money management skills, financial planning and investment know-how, are financial literacy components. Financial literacy has in recent years has gained the interest of various groups, including governments, bankers, employers, community interest groups, financial markets, and other organisations, especially in developed countries (Al-Tamimi & Kalli, 2009). Noctor et al. (1992) seminal definition of financial literacy as “the ability to make informed judgments and to take effective decisions regarding the use and management of money” has been adopted in this study. Consumers are considered financially literate if they can make informed judgments and take practical actions regarding their money’s current and future use and management (Basu, 2005).

Financial management is involved with effective and efficient monetary resources management. This is concerned with the funds’ procurement and sufficient utilisation (Hilgert & Hogarth, 2003). In this concern, personal financial running encompasses how family units or individuals acquire, budget, save and spend money over time, taking cognisance of various financial risks and future life events (Gachango, 2012). Better financial management is not just an obligation for the company or business entity. However, the household individuals also have a requirement to good financial management to prosper in future. With good and correctly financial management, the individual in the household will be spared from financial difficulties. Moreover, by regulating the flow of its finances, the people in the household will maintain a balance between revenue and expenditure required (Dwiastanti, 2015).

The government of Kenya is the largest financier of the social protection sector, with support from a range of stakeholders. Between 2005 and 2010, the government financing amounted to, on average, 55 per cent of total

social protection financing (the Republic of Kenya, 2012). In 2009, Kenya had 2.1 million wage employees; around 1.1 million were National Social Security Fund members. However, there has been limited success in bringing self-employed workers on-board. By 2012, the fund had about 57,000 self-employed members, a fraction of the approximately 8.2 million workers in the informal economy (the Republic of Kenya, 2012). This shows that many self-employed members must have individual arrangements to save for their retirement. This calls for sound management of their finances. Munro and Hirt (1998), in their study titled “credit cards and college students: Who pays, who benefits? Note that one important responsibility that new college students face is the management of personal finances. Raven (2005), in a study titled “Financial Literacy: A Basic Skill for Social Mobility; Digital Divide Network”, notes that financial literacy skills allow individuals in navigating the financial world, minimise their chances of being misled on financial matters and make informed decisions about their money. Brown and Wheatley (2005), in their study titled “Debt and distress: Evaluating the psychological cost of credit indicates that financial literacy can be improved through financial education, information, instruction, training and advice.

Maina (2010) carried out a study that compared employees from financial institutions that are listed at the Nairobi stock exchange who were assumed to have some financial education by virtue of their training and nature of work and employees from institutions which are non-financial in establishing if there could be an existing difference between the two groups when it comes to personal financial management practices. In his study titled “Effect of Financial Literacy on Personal Financial Management Practices: A Case Study of Employees in Finance and Banking Institutions,” he noted that working in an environment of investment and finance does not make one

have drastically different financial behaviours compared to those who do not.

The study demonstrated that financially educated and those who do not exhibit relatively the same personal financial management patterns although in different magnitudes. He noted, for example, that 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. The overall results of his study indicate that financial literacy positively influences personal financial practices (Maina, 2010). Small scale trading enterprises are those businesses engaged in providing or rendering services and products already manufactured (the Republic of Kenya, 2006). This study refers to small trading enterprises with personnel of one to five people.

Gatundu North is one of the twelve constituencies within Kiambu County. Gatundu South, Githunguri, Juja, Kabete, Kiambaa, Kiambu, Kikuyu, Lari, Limuru, Ruiru, Thika East and Thika West constituencies. In Kiambu County, 12 per cent of the residents with no formal education, 14 per cent for those with primary education and 15 per cent for those with a secondary level of education or above are working in family businesses (KNBS & SID, 2013). In Kiambu County, 12 per cent of the residents with no formal education, 14 per cent for those with primary education and 15 per cent for those with a secondary level of education or above are working in family businesses (KNBS & SID, 2013).

Kiambu County has 48 per cent residents with the education of primary level only. The highest share of residents having a primary level of education at only 60 percent is Gatundu North constituency. This is almost twice the Ruiru constituency, with the lowest share of primary-level education residents. Gatundu North is 12 percentage points above the county average (KNBS & SID, 2013).

Gatundu North Constituency comprises four Markets; Kamwangi, Gatukuyu, Kairi and Makwa. Kamwangi and Gatukuyu have dominated the rest of the Markets since Independence due to skewed distribution of resources and poor Infrastructure. It was before the 1997 elections when this constituency was established. Previously it was part of the larger Gatundu Constituency.

LITERATURE REVIEW

The accelerator theory was conceived before Keynesian economics, but it came into public knowledge as Keynesian theory, and it began to dominate the field of economics in the 20th century. It was developed by Thomas Nixon Carver and Albert Aftalion, among others. Empirical research, however, supports the theory. Accelerator theory is a postulation of economics whereby companies' investments increase by increasing income or demand. This theory also proposes that when there is an excess of demand, companies can meet the demand in two ways; either decrease demand by raising prices or increase investment to meet the level of demand. The accelerator theory posits that companies typically increase production, thereby increasing profits. Additional investors are attracted by this growth, and they also accelerate it. This theory is relevant to the current study in that small scale trading enterprises owners with basic money management skills would make the appropriate investment decisions.

Government entities and private organisations in developed nations have conducted surveys to measure the financial literacy level of their population (Al-Tamimi & Kalli, 2009). The OECD (2005) study reviewed financial literacy in 12 countries, including the USA, the UK, European countries, Australia, and Japan. The study found that all surveys conducted in those countries concluded that most respondents' financial literacy is very low. Al-Tamimi and Kalli (2009), the examiners of financial literacy in the United Arab Emirates (UAE), state that the financial literacy level among UAE investors is required. Higher education

investors affect significantly investing decisions. There is a significant relationship between financial investment literacy and decisions. Results of the financial literacy survey conducted by the Financial Services Authority (FSA) in 2013 showed that financial literacy levels of Indonesian society are still deficient, only reaching 21.84 per cent. This signifies that out of 100 Indonesians, only about 21 people know the function, meaning and management of finances. The survey was conducted with a number of 8,000 respondents in 20 provinces, all from diverse social backgrounds, economies and education (Dwiastanti, 2015). Lusardi and Mitchell (2006), in a study titled financial literacy and planning: Implications for retirement well-being, found that the financial literacy level was low among the women, parents, and the ones with a low level of education. Volpe and Chen (2002), in a study titled “A survey of investment literacy among online investors” Financial Counselling and Planning”, found no difference in the level of financial literacy based on education, experience, age, income and gender.

According to Putra et al. (2014), in research by (Dwiastanti, 2015), financial distress and financial problems can be prevented from someone by good financial management. The income level is not the only source of financial difficulties problem. According to Rashid (2012) in a research by (Dwiastanti, 2015) financial literacy is a basic need to avoid financial problems. Financial difficulties are not only a mere income (low-income) function; these difficulties may also arise from an error in financial management (mismanagement), such as lack of financial planning and credit misuse. Low self-esteem and stress can be caused by financial constraints (Rashid, 2012).

RESULTS AND FINDINGS

Basis of Decision to Buy a Financial Product

This question sought to investigate the basis of buying a financial product.

Table 1: Basis of Decision to Buy Financial Products

Response	Freq.	Percentage
When a product is recommended by a relative or friend	74	62%
When you compare features of similar financial products	10	8%
When the product is recommended by a financial advisor	2	2%
When the product is part of promotion	34	28%
Total	120	100

An overwhelming 62 per cent indicated that they buy a financial product when the product is recommended by a friend or relative, 8 per cent believe when they compare features of similar financial products, 2 per cent when the product is recommended by a financial advisor. In comparison, 28 per cent buy when the product is part of a promotion. The details are of the results are presented in Table 1.

Savings of Income

This question sought to investigate if the respondents save their income.

Table 2: Savings of Income

Response	Frequency	Percentage
Yes	86	72%
No	34	28%
Total	120	100

72 per cent indicated that they saved their income, while 28 per cent did not. The results' details are presented in Table 2. This indicates that there is savings culture among the small scale traders.

How Savings are done

The researcher sought to find out how savings are done among the 72 per cent who acknowledged that they save their income.

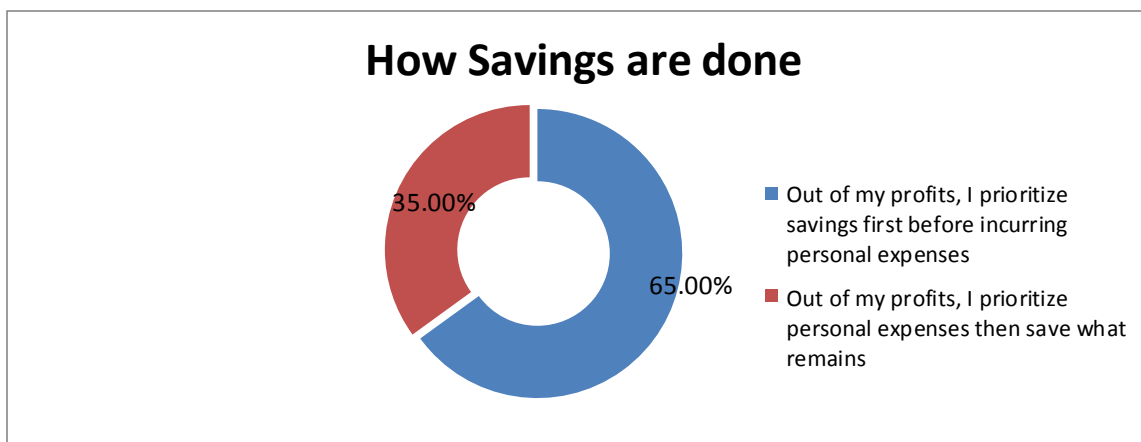


Figure 1: How Savings are done

65 per cent of the respondents indicated that out of their profits, they prioritised savings before incurring personal expenses. In comparison, 35 per cent indicated that their first priority is meeting personal expenses out of their profits before saving what remains. The details of the results are presented in Figure 1 above.

Timing of the Savings

The researcher sought to investigate the timing of their savings

Table 3: Timing of the Savings

Response	Frequency	Percentage
I save a fixed amount from my daily profit before spending the rest	58	64.7%
I save a fixed amount from my weekly profit before spending the rest	19	22.1%
I save a fixed amount from my monthly profit before spending the rest	9	10.5%

67.4 per cent indicated that they save a fixed amount from their daily profit before spending the rest, 22.1 per cent save a fixed amount from their weekly profit before spending the rest, while 10.5 per cent save a fixed amount from their monthly profit before spending the rest. The details of the results are presented in Table 3. The results

indicate that majority plan their finances on a day to day basis.

How the Last Purchase of a Durable Item Was Paid For

The researcher sought to find out how the last purchase of a durable item was paid for.

Table 4: How the Last Purchase of a Durable Item was paid for.

Response	Frequency	Percentage
I paid in cash with my own savings	27	23%
I paid with a loan	64	53%
I used hire purchase	29	24%
Total	120	100

23 per cent paid in cash with their savings, a majority 53 per cent paid with a loan, while 24 per cent used hire purchase. The details are of the results are presented in Table 4 above. This indicates that the majority of the small scale trading enterprises owners depends on loans to buy durable items.

How Expenditure is Monitored

The researcher sought to find out how the respondents monitored their expenditure.

Table 5: How Expenditure is monitored

Response	Frequency	Percentage
I normally do not track how much I spend	53	44%
By monitoring how much I have left in my savings after paying for expenses	60	50%
By recording how much I have spent on each item/monitoring my bills	7	6%
Total	120	100

44 per cent normally don't track how much they spend, 50 per cent monitor how much is left in their savings after paying for their expenses, while 6 per cent record how much they have spent on each item/monitoring their bills. The details are of the results are presented in Table 5.

Why Expenditure is not monitored

The researcher sought to find out why expenditure is not monitored.

Table 6: Why Expenditure is not monitored

Response	Frequency	Percentage
My spending	17	32%
I have no time to do so	25	48%
There is no point monitoring my spending	9	16%
I don't know how to do it	2	4%
Total	53	100

32 per cent says as long as they don't spend more than what they earn, they don't need to track their spending, 48 per cent have no time to do so, 16 per cent says there is no point in monitoring their spending, while 4 per cent don't know how to do it. The details are of the results are presented in Table 6.

Whether on Loan

The researcher sought to find out whether the small scale trading enterprises owners were on loans.

Table 7: Whether Loan have been Taken

Response	Frequency	Percentage
Yes	98	82%
No	22	18%
Total	120	100%

82 per cent said they were on loans, while 18 per cent said they did not have loans. The details are of the results are presented in Table 7.

Kind of Loans Taken

The researcher sought to find out the kind of loans they had been taken.

Table 8: Kind of Loans Taken

Response	Frequency	Percentage
Loans to boost business	47	47.9%
Loans to pay school fees	38	38.8%
House construction loans	6	6.1%
Car loans	2	2%
Others	5	5.1%
Total	98	100

47.9 per cent had taken loans to boost business, 38.8 per cent loans to pay for school fees, 6.1 per cent house construction loans, 2 per cent car loans, while 5.1 per cent had other loans. This shows that the majority of their loans were either for boosting their businesses or for payment of school fees. The details are of the results are presented in Table 8 above.

Conversant with Loan Data

The researcher purposes in finding out if the traders were conversant with their loan data



Table 9: Conversant with Loan Data

Response	Frequency	Percentage
Conversant with the amount of monthly instalment	98	82%
Conversant with total repayment period	113	94%
Conversant with the number of remaining monthly instalments	65	54%
Conversant with the amount of loan outstanding	74	62%
Conversant with terms and penalties applicable when repaying	50	42%

82 per cent are conversant with the amount of monthly instalments, 94 per cent are conversant with the total repayment period, 54 per cent are conversant with the number of remaining monthly instalments, and 62 per cent are conversant with the loan amount outstanding. In comparison, 42 per cent are conversant with terms and penalties applicable when repaying. The details are of the

results are presented in Table 9 above. The majority of the respondents were conversant with the total repayment period.

How the Decision to Take Loan Was Made

The researcher sought to find out how the decision to take the loan was made.

Table 10: How the Decision to Take a was Made

Response	Frequency	Percentage
Before I applied for the loan, I worked out how much I could afford to borrow	31	32%
It was an easy decision as I knew I had a regular income/enough savings to service the loan	39	40%
I applied for the loan first, then worked out how much I should set aside to pay	28	28%
Total	98	100

32 per cent said before they applied for the loan, they worked out how much they could afford to borrow, 40 per cent said it was an easy decision as they knew they had a regular income/enough savings to service the loan, while

28 per cent applied for the loan first, then worked out how much they should set aside to pay. The details are of the results are presented in Table 10.

INFERENTIAL STATISTICS

Table 11: Pearson Correlation Coefficient

Variable		Financial Decision Making	Basic Money Management Skills
Financial Decision Making	Pearson Correlation	1	0.483
	Sig. (2-tailed)		0.000
Basic Money Management Skills	Pearson Correlation	0.483	1
	Sig. (2-tailed)	0.000	



The Pearson correlation results from this study are shown in Table 11, and it reveals that there is a 0.483 positive correlation between the effects of basic money management skills of small scale trading enterprise owners and their financial decision-making.

Table 12: Model Summary for the Effects of the Basic Money Management Skills of Small Scale Trading Enterprises Owners and Their Financial Decision Making.

Indicator	Coefficient
R	0.496
R Square	0.246
Std. An error of the Estimate	0.63521

The research hypothesis was tested, and the results are presented above. Reference was made to the conceptual framework in Figure 1 and the proposed hypothesis (H_{01}). Regression analysis was carried out to determine empirically whether the effect of the basic money management skills of small scale trading enterprises owners was a significant determinant of their financial decision-making. An R squared of 0.246 indicates that 24.6 per cent of the variances in the financial decision-making by small-scale trading enterprises owners are explained by the variances in basic money management skills. This is shown in Table 12 above .

Table 13: ANOVA for the Effects of the basic money management skills of small scale trading enterprises owners and their financial decision making

Indicator	Sum of Squares	df	Mean Square	F	Sig.
Regression	18.467	1	18.467	32.116	0.000
Residual	68.45	119	0.575		
Total	86.971	120			

The model significance is presented in Table 13. An F statistic of 32.116 indicated that the model is significant. This is supported by a probability value of 0.000. The reported probability (0.000) is less than the conventional probability (0.05). Therefore, the model applied can significantly predict the changes in the financial decision-making among the small scale trading enterprises owners. The study, therefore, fails to accept the null hypothesis, H_{01} at 95 per cent confidence interval and concludes that there is an existence of a significant relationship between the effect of the basic money management skills of small scale trading enterprises owners and their financial decision-making.

Table 14: Coefficients of the Effects of the Basic Money Management Skills of Small Scale Trading Enterprises Owners and Their Financial Decision Making

Variable	Beta	Std. Error	t	Sig.
Constant	1.823	0.256	7.121	0.000
Basic Financial Management Skills	0.469	0.068	6.897	0.000

The effects of the basic money management skills of small scale trading enterprises owner's coefficients are presented in Table 14. The results show that the basic money management skills of small scale trading enterprises owners contribute significantly to the model since the p-value is 0.000. This implies that the effects of the basic money management skills of small scale trading enterprises owners are statistically significant in explaining their



financial decision making. Financial Decision Making By Small Scale Trading Enterprises Owners = $1.823 + 0.0469$ Basic Financial Management Skills + μ

CONCLUSIONS AND RECOMMENDATIONS

Conclusion: Basic money management skills of small scale trading enterprises owners influence their financial decision making as 24.6 per cent of the variances in the financial decision making by small scale trading enterprises owners are explained by the variances in basic money management skills. From the findings of the study, most of the traders do not possess basic money management skills. When making decisions on whether to purchase a financial product or not, 62 per cent are guided by recommendations from a friend or relative. In comparison, 28 per cent are guided by information during promotion campaigns for the product. Only a paltry 8 per cent are able to make decisions by comparing features of similar

products. 50 per cent of the respondents also monitor their expenditure by checking how much has been left in the account after paying for their expenses. In comparison, 44 per cent do not monitor their expenditure. It is only 6 per cent that record and monitors each item spent on their bill. A large portion of those with loans (40%) took the loans without working out how much they could afford because they knew they had enough savings to service the loan. However, most of the respondents were conversant with the details of the loans they had taken, such as the number of monthly payments, total repayment period, number of remaining monthly instalments and amount of outstanding loan.

Recommendation: The county government should engage small scale trading enterprises owners in financial literacy training through the relevant ministries.

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