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ROLE OF FINANCIAL LITERACY ON FINANCIAL DECISION AMONG STUDENTS OF JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY

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Abstract: **We live in troubled economic times and financial literacy is increasingly becoming, not only a national concern, but also a global concern. Financial markets have increasingly been deregulated with rapid growth of financial products being experienced across many financial markets. Increase in inflation and diminishing of getting jobs. JKUAT students are on transition to be on their own after their years in university. In this regard, it is becoming increasingly important for the students to become aware of their personal finances so as to ensure them and their families are financially secure in the long run. This study has focuses on role of financial literacy on financial decision among students of Jomo Kenyatta University of agriculture and technology. The objectives of the study were as follows; To determine the effect of debt management literacy on financial decision among students of JKUAT. To establish the effect of budgeting literacy financial decision among students of JKUAT. To find out how literacy on banking services affects financial decision among students of JKUAT. To examine the effect of book keeping literacy on financial decision among students of JKUAT. The targeted population which represented the sampling frame are the students of JKUAT in human resource department who were on their final semesters in their courses in all bachelor programs approximated to be 500 students. This population was selected due to its accessibility and proximity to the researcher. Both descriptive and inferential statistics was adopted for the study. The quantitative data was analyzed by using descriptive statistics which included frequency distribution tables and measures of central tendency (the mean), measures of variability (standard deviation) and measures of relative frequencies. the inferential statistics included a regression model which established the relationship between variables. Data was analyzed by the use of a statistical software SPSS version 20. Data was presented in the form of tables and charts. From the results, it is evident that some of the benefits associated with financial literacy are financial satisfaction, better management of personal finances, substantial returns, effective money management, budgeting and record keeping, and effective retirement planning and debt management. These benefits would help individuals make informed personal financial decisions. It is also a call for all the stakeholders within the financial sector and without to continuously exploits financial literacy for maximum results of personal financial decisions. The survey demonstrates that financial constraints, lack of literacy programs, individual commitments, inaccessible venues, culture and beliefs and lack of sponsorship are impediment to the participation in financial literacy programs. Nonetheless, the banks and other financial institutions need to go the extra mile in suppressing these factors so as to improve and increase participation of financial literacy programs within their memberships. The survey has shown that the adoption of strategies such as better accessibility of financial literacy program venues, use of online platform, sponsorship, incorporation of financial literacy course in the school curriculum, use of practical approaches in disseminating financial literacy information and flexible scheduling will help enhance participation in financial literacy programs. JKUAT and others should embrace the use of these mechanisms in order to impart up to date financial knowledge to their members. This research was designed to determine the role**

of financial literacy on financial decisions made by JKUAT Students. After reviewing the varied responses, gaps which were outside the scope of this research have emerged. This research was only focused on Jkuat Students hence locking out others that are in the same institution. Future research should evaluate whether members of other JKUAT would exhibit similar results and findings as far as the responses were concerned. In addition, similar research could be carried out with a focus on the management of the JKUAT to find out their perspective on the specific objectives of this research.

Keywords: **Financial, Literacy, Financial Decision.**

1. BACKGROUND OF THE STUDY

Current economic conditions in the world over have raised serious concerns about individuals' financial security, especially for those who lack the skills and resources to withstand financial market downswings and take advantage of upswings. Individuals are taking responsibility for a growing number of financial decisions. Among the most important arguably being the purchase and financing of a home and preparing for retirement (Anthes, 2004).Conceptually, poor financial decision making is surprisingly widespread phenomenon in many Nations. This problems are always unnoticed for a long time before a crisis is reached hence the systemic effects and the costs of preserving stability may be sizable, as demonstrated by the ensuing financial market turmoil and subsequent interventions after the financial crises that included bailing out of private companies by the various governments in Europe and United States of America (Gerrit, 2008).

Financial literacy is simply the ability of an individual to use knowledge and skills to manage financial resources effectively, Atkinson and Messy (2005).Worthington (2005) defines financial literacy as the capability of exercising right judgment when making decisions relating to financial matters. Financially literate persons have the ability to make informed decisions relating to their pensions. This is because their confidence is developed out of the financial skills gained Agnew (2007).

The university was started in 1981 as Jomo Kenyatta College of Agriculture and Technology (JKCAT), a middle-level college by the government of Kenya with assistance from the Japanese government. Plans for the establishment of JKCAT started in 1977. In early 1978, the Kenyan president, Jomo Kenyatta, donated 200 hectares of farmland for the establishment of the college. The first group of students was admitted on 4 May 1981. The new president Daniel ArapMoi formally opened JKUAT on 17 March 1982.

It offers courses in Technology, Engineering, Science, Architecture and Building sciences. The university has a strong research interest in the areas of Social Science and Sciences. University population contains of students who are self sponsored and those who are under Government sponsored program. The current population of the students in the university are more than 6,000 students.

2. STATEMENT OF THE PROBLEM

Students need financial skills perhaps more now than ever before. The reason being that the current developments in the financial market have focuses renewed attention on the importance of people being both well informed about their financial option and discerning financial consumer in short being financial literate Hilgert (2003), thus financial literacy can help to prepare consumer for tough financial times by promoting strategies that mitigate risk such as accumulated savings, diversifying assets and purchasing insurance.

Understanding financial literacy among young people is essential for developing effective financial education programme (Cameron 2014).Its therefore crucial to research and findways to improve the financial literacy competences of people especially students who are seen as future generation in this country. Therefore, the aim of the study was to fill in the research gap by addressing role of financial literacy on financial decision among students of jomo kenyatta university of agriculture and technology.

3. LITERATURE REVIEW

Prospect Theory

The adoption of this theory is expected to enable the understanding of the effects of good decision making to financial performance. This theory was advanced by Kahneman and Tversky, (1981). He describes how individuals make and attach a value to a decision involving uncertainty and hence risk. It is a behavioral bias that explains how individuals make a choice between various alternatives whose nature is probabilistic and they involve uncertainty and hence risk and the probabilities of outcomes are known or can be determined. The theory supports the fact that individuals take decisions that are based on the potential value gains earned and losses incurred as a result and they are not guided by the final outcome of the decision. The decision makers use certain heuristics to evaluate their gains and losses.

Learning Theory

Learning theory evolved most notably with the work of Skinner who determined that once the behaviour is associated with a consequence, whether a reinforce or punishment, the likelihood of the action continuing changes. Skinner argued that positive reinforcement and punishment are not equal; with the former providing longer lasting results and the latter having negative side effects (Skinner 1953).

Piaget's Cognitive Theory

Cognitive theory's interest is in the cognitive processes that lie between the observed cause and its effect on behaviour. From observing the thinking and actions of children, Jean Piaget argued that what actually elicits a response is both the sensitization to the stimulus and how people think (Byrnes 2008). Central to Piaget's theory is his view of how individuals gained knowledge, arguing that it occurred from interaction, first physically and then mentally, with objects. He was convinced that, 'in order to know objects, the subject must act upon them, and therefore transform them. He must displace, connect, combine, take apart, and reassemble them (Piaget, 1983)

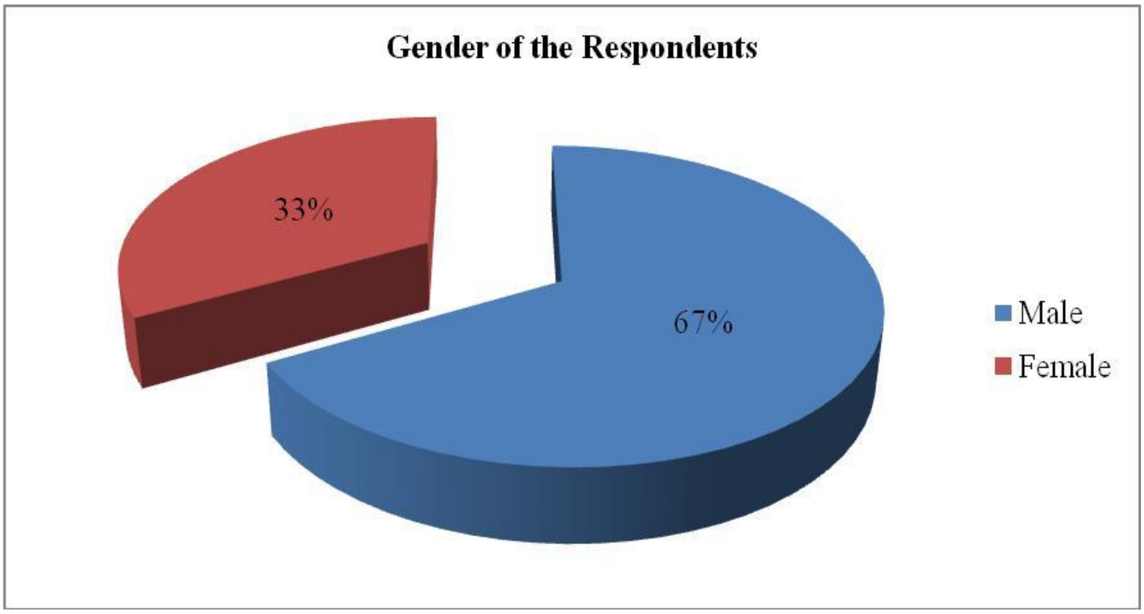
Goal Setting Theory

This theory was advanced by Locke (1986) and Locke and Latham (1990). According to this theory, individuals financial goals coupled with perception of the cost-benefit of financial literacy are more likely to determine how well an individual makes investment choices and perform related tasks. The theory is based on the belief that people that make goals consciously have the capability to achieve the results desired. Goals form the basis for people to perform tasks in a given manner as opposed to another. People that have the tendency to set challenging goals that are clear and well-defined have been seen to achieve higher yield than persons whose goals are vague and easy to achieve

4. DATA ANALYSIS, PRESENTATION AND INTERPRETATIONS

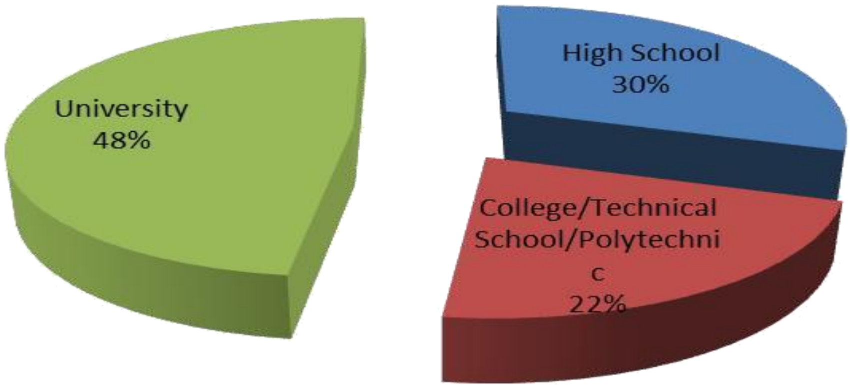
Gender of the Respondents

The respondents were requested to indicate their gender. From the findings, majority 67%of the respondents were male while 33% of the respondents were female. This implied that data was collected from both male and female.



Level of Education of Respondents

The study sought to establish the level of education of the respondents and the findings in figure shows that 48% were university, 30% high school and 22% college, technical school/ polytechnic.



Income Level of Respondents

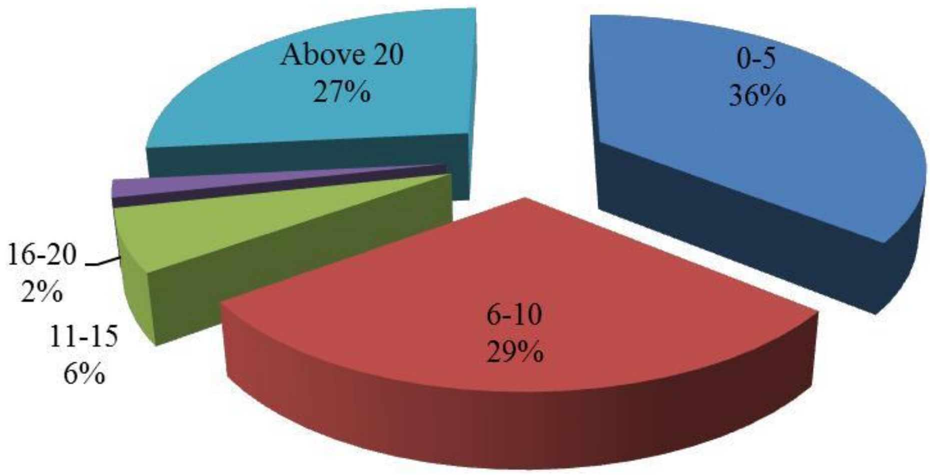
The study sought to establish the income level of the respondents and the findings in table 4.3 show that 27% earn between Kshs. 5,000-20,000 p.m.,49% earn between Ksh. 21,000-40,000 p.m., 16% earn between Ksh. 41,000-60,000 p.m., 5% earn between Ksh. 61,000-80,000 p.m., 3% earn between Ksh. 81,000-100,000 p.m. and finally 0% earn over Ksh. 100,000 p.m.

Table :-Income Level of Respondents

	Distribution	
Income Level (Per Month)	**Frequency**	**Percentage**
5,000-20,000 KES	82	27
21,000-40,000 KES	151	49
41,000-60,000 KES	49	16
61,000-80,000 KES	15	5
81,000-100,000 KES	9	3
Over 100,000 KES	0	0
Total	**306**	**100**

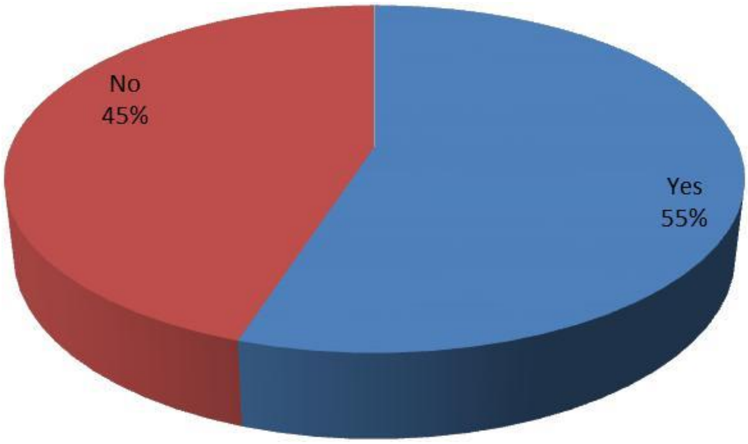
Level of Saving

Most of the respondents who indicated that they save between 0-5% of their earnings accounted for 36%, 6-10% polled at 29%, those who saved between 11-15% were 5%, 16-20% were 2% while those who saved above 20% of their earnings were 27%.



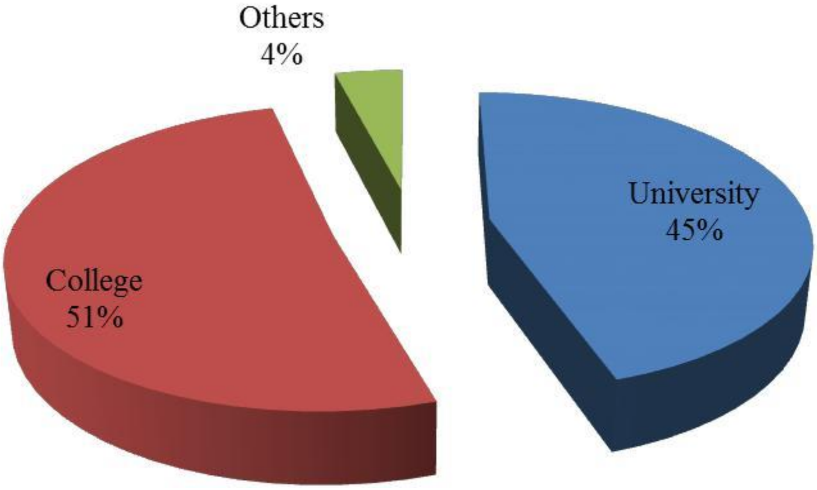
Finance Course Attendance

Majority of the respondents at 55% indicated that they have attended finance course while 45% indicated to not having attended a finance course.



Place of Attendance

Majority of the respondents at 51% indicated that they attended the finance course at college while those who attended those courses at the university were 45% with other areas of attendance such as seminars and conferences accounting for 4%.



Courses Done

The research sought to find out the courses done by the respondents. The results shows that 35% of the respondents did ACCA, 22% indicated accounting and finance, financial planning and management accounted for 18%, Bcom 9%, budgeting, Msc, finance and CPA were 3%, MBA, accounting, MBA, project management and KATC were all at 2% while microfinance polled at 1%.

Table: Finance Courses Done

	Distribution	
Course Done	**Frequency**	**Percentage**
ACCA	107	35
Accounting and Finance	67	22
Bcom	27	9
CPA	9	3
Budgeting	9	3
Financial Planning and Management	55	18

Microfinance	3	1
KATC	6	2
MBA, Project Management	6	2
MBA, Accounting	6	2
Msc, Finance	9	3
Total	**306**	**100**

Benefits of Financial Literacy on Personal Financial Decisions

This section presents data on the benefits of financial literacy on personal financial decisions.

Test for the Benefits of Financial Literacy of Personal Financial Decisions

Table:-Test for the Benefits of Financial Literacy

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Financial satisfaction	306	4.2900	.91337	.09134
Personal finances	306	4.4400	.92463	.09246
Substantial returns	306	4.2600	.84829	.08483
Money management	306	4.5500	.65713	.06571
Budget and financial records	306	4.5800	.79366	.07937
Retirement planning	306	4.8300	6.61693	.66169
Debt management	306	4.2200	.89420	.08942
Understanding Financial markets	306	4.6800	.61759	.06176

Using a test value of 2, majority tended to agree with a mean of 4.8 for retirement planning as a benefit associated with financial literacy and personal financial decisions, understanding financial markets (mean of 4.7), both money management and budget and record keeping (mean of 4.6), both financial satisfaction and substantial return (mean 4.3), personal finances (mean of 4.4) and finally debt management with a mean of 4.2.

Table :- One-Sample Test For Benefits of Financial Literacy

	Test Value = 2					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference Lower	Upper
Financial satisfaction	25.072	99	.000	2.29000	2.1088	2.4712
Personal finances	26.389	99	.000	2.44000	2.2565	2.6235
Substantial returns	26.642	99	.000	2.26000	2.0917	2.4283
Money management	38.805	99	.000	2.55000	2.4196	2.6804
Budget and record Keeping	32.508	99	.000	2.58000	2.4225	2.7375
Retirement planning	5.971	99	.000	2.83000	1.8895	3.7705
Debt management	24.827	99	.000	2.22000	2.0426	2.3974
Understanding Financial markets	43.395	99	.000	2.68000	2.5575	2.8025

The results in table 4.7 above show that there is significant relationship between the benefits of financial literacy and personal financial decision. Financial satisfaction has $p < .001$, personal finances ($p< 0.001$), substantial returns ($p< 0.001$), money management ($p< 0.001$), budget and financial records ($p< 0.001$), retirement planning($p< 0.001$), debt management ($p< 0.001$) and understanding financial markets ($p< 0.001$).

Other Benefits of Financial Literacy on Personal Financial Decisions

Other benefits of financial literacy on personal financial decisions as captured from the respondents' feedback include; appraisal of investment opportunities, tax compliance, additional savings and predicting the growth curve of the investment model.

Challenges to Participating in Financial Literacy Programs

This section presents data on the challenges in participating in financial literacy programs.

T Test for Challenges to Participating in Financial Literacy Programs

Table:-Test for Challenges to Participating in Financial Literacy Programs

	N	Mean	Std. Deviation	Std. Error Mean
Financial constraints	306	3.5200	1.19325	.11932
Lack of financial literacy programs	306	3.4500	1.16667	.11667
Personal commitments	306	3.4100	1.23169	.12317
Inaccessible venues	306	2.8100	1.15203	.11520
Cultures and beliefs	306	3.1400	1.49761	.14976
Lack of interest	306	2.3600	1.32969	.13297
Lack of sponsorship	306	3.4700	1.28279	.12828

Using a test value of 2, most of the respondents pointed out that financial constraints, lack of financial literacy programs and lack of sponsorship as being the main challenges to participating in financial literacy programs hence scoring a mean of 3.5. Personal commitments were other impediments to participation in financial literacy programs (mean of 3.4), culture and beliefs (mean of 3.1), inaccessible venues (mean of 2.8) while lack of interest recorded a mean of 2.4.

Table :-One-Sample Test For Challenges of Financial Literacy

	Test Value = 2					
					95% Confidence Interval of the Difference	
	T	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Financial constraints	12.738	99	.000	1.52000	1.2832	1.7568
Lack of financial literacy programs	12.429	99	.000	1.45000	1.2185	1.6815
Personal commitments	11.448	99	.000	1.41000	1.1656	1.6544
Inaccessible venues	7.031	99	.000	.81000	.5814	1.0386
Cultures and beliefs	7.612	99	.000	1.14000	.8428	1.4372
Lack of interest	2.707	99	.008	.36000	.0962	.6238
Lack of sponsorship	11.459	99	.000	1.47000	1.2155	1.7245

The above table 4.9 indicates that there is a significant relationship between challenges to participation in financial literacy programs and personal decision. Financial constraints as a challenge has $p < 0.001$, lack of financial literacy program ($p < 0.001$), personal commitments ($p < 0.001$), inaccessible venues ($p < 0.001$), culture and beliefs ($p < 0.001$), lack of interest ($p < 0.001$) and lack of sponsorship ($p< 0.001$).

Other Challenges to Participating in Financial Literacy Programs

The results from the respondents also captured other challenges deemed to be hindrance to the participation in financial literacy programs. The mentioned hindrances include; ignorance, frequency of course offering, technical language use and lack of organizational support.

Strategies to Improve Financial Literacy

This section presents data the strategies to improve financial literacy.

T Test for Strategies to Improve Financial Literacy

Table :-T Test for Strategies to Improve Financial Literacy

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Accessibility of programs	306	3.8800	1.18305	.11830
Use of Online platform	306	3.8700	1.04112	.10411
Sponsorship	306	3.5300	1.27489	.12749
Flexible scheduling	306	4.3700	.79968	.07997
Incorporate in School curriculum	306	4.1300	.89505	.08950
Use of Practical approaches	306	4.3700	.79968	.07997
Change of attitude	306	4.1800	.99879	.09988

Using a test value of 2, majority of the respondents observed that accessibility of programs, use of online platform, sponsorship, flexible scheduling, school curriculum, practical approaches and change of attitude are some of the strategies used to promote financial literacy. It is noted that flexible scheduling and practical approaches were highly ranked by the respondents by scoring a mean of 4.4, change of attitude scored a mean of 4.2; incorporating financial literacy programs in school curriculums had a mean of 4.1 while both accessible programs and online platform scored a mean of 3.9 with sponsorship garnering a mean of 3.5.

Table :-One-Sample Test For Strategies of Financial Literacy

	Test Value = 2					
					95% Confidence Interval of the Difference	
	T	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Accessibility of programs	15.891	99	.000	1.88000	1.6453	2.1147
Use of Online platform	17.961	99	.000	1.87000	1.6634	2.0766
Sponsorship	12.001	99	.000	1.53000	1.2770	1.7830
Flexible scheduling	29.637	99	.000	2.37000	2.2113	2.5287
Incorporate in School curriculum	23.798	99	.000	2.13000	1.9524	2.3076
Use of Practical approaches	29.637	99	.000	2.37000	2.2113	2.5287
Change of attitude	21.826	99	.000	2.18000	1.9818	2.3782

Table 4.11 above shows that there is significant relationship between strategies to improve financial literacy and personal financial decision. The results indicate that accessibility of program venues has $p < 0.001$, use of online platform ($p < 0.001$), sponsorship ($p < 0.001$), flexible scheduling ($p < 0.001$), incorporating financial literacy in school curriculum ($p < 0.001$), use of practical approaches ($p < 0.001$) and change of attitude ($p < 0.001$).

Other Strategies to Improve Financial Literacy

The respondents' indicated that incorporating financial management as part of syllabus, organizing exchange programs with other SACCOs and organizing mobile trainings are other strategies that can help improve financial literacy.

Correlation between Debt Management and Financial Literacy Strategies

Table:-Correlations between Debt Management and Financial Literacy Strategies

	Strategies	Kendall's tau-b (τ)	Spearman's rho (ρ)
Debt Management	Accessibility of programs	.285**	.315**
	Debt Cost	.366**	.421**
	Flexible scheduling	.266**	.294**
	Repayment Terms	.484**	.514**
**Correlation is significant at the 0.01 level (2-tailed)			
*Correlation is significant at the 0.05 level (2-tailed)			

Upon running a Kendall's tau-b (τ) and Spearman's rho (ρ) correlation analysis between Financial satisfaction and strategies of financial literacy, it was established that there exist a strong significant correlation between financial satisfaction and accessibility of financial literacy programs, financial satisfaction and Debt Cost, financial satisfaction and flexible scheduling, and financial satisfaction and incorporating financial literacy programs in the Repayment Terms

5. SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

In this chapter, the results and findings that were presented in chapter four are discussed. Conclusions are drawn and then recommendations are made. The chapter is organized according to the research questions. The discussions are focused on how the findings related to the role of financial literacy on personal financial decision among students of Jomo Kenyatta University of agriculture and technology .The chapter begins by providing a summary of the findings presented in chapter four in a manner that answers the research questions and secondly compare these findings with the previous studies as presented in chapter two of this study. It presents the major conclusions and recommendations for further studies.

Benefits of Financial Literacy on Personal Financial Decisions

The study noted some of the benefits associated with financial literacy on personal financial decisions include: Financial satisfaction, better management of personal finances, improved substantial returns, effective money management, budgeting and record keeping, effective retirement planning and better debt management.

The results disclosed that there is significant relationship between financial satisfaction and personal financial decision making, personal finances and personal financial decision, substantial returns and personal financial decision, money management and personal financial decision, budget and financial records and personal financial decision, retirement planning and personal financial decision, debt management and personal financial decision and finally between understanding financial markets and personal financial decision.

According to the study, most of the respondents felt that retirement planning as a benefit of financial literacy influenced personal financial decision on a large extent. This is corroborated by the studies of Clark, Mellinda and Allen (2010) who opined that many employees more so those in the U.S. and who are about to clock their retirement have a limited or lack knowledge of their company retirement benefits, and thus have delusions concerning their expected age of retirement. This trend amongst the employees is not only worrying but is a pointer to how significant financial planning is with regards to personal financial decisions. This finding is further bolstered by Lusardi and Mitchell (2011a) that in the U.S. there is lack of planning for retirement and this could be as a result of lack of financial literacy hence the need to embrace retirement planning in order for employees to make informed personal financial decision whenever they go into retirement.

The study further established that effective money management as a benefit associated with financial literacy on personal financial decision is of great importance to members whenever they want to make informed financial decision. This finding is reinforced by GEM (2003) that personal savings attributed to better management of finances is widely seen as the most important source of finance accessible to entrepreneurs in forming a new business. GEM (2003) further argues that the extremely high debt ratios of consumers, savings as a result of better management of finances have often been left behind and almost forgotten.

The study revealed that substantial return as another benefit of financial literacy influenced personal financial decision greatly. This is supported by Guiso and Jappelli (2008); Lusardi and Mitchell, (2007); Lusardi and Tufano, (2009); Alessie, Lusardi, and Van Rooij, (2007; 2008) that in as much as wealth has been considered as a determinant of literacy, it is epitomized that financial literacy is a major factor of wealth accumulation otherwise seen as a substantial return. This statement is further supported by Jappelli and Padula (2011) who noted that literacy and wealth are jointly determined and are correlated over the life of consumer. The study further outlined other benefits of financial literacy on personal financial decision. These included: appraisal of investment opportunities, tax compliance, additional savings and lastly predicting the growth curve of the investment.

Conclusions

Benefits of Financial Literacy on Personal Financial Decisions

The study has sufficiently shown that financial satisfaction, better management of personal finances, substantial returns, effective money management, budgeting and record keeping, effective retirement planning and debt management are some of the benefits that accrue to individuals who are financially literate. They are thus able to make effective personal financial decisions.

Recommendations

Benefits of Financial Literacy on Personal Financial Decisions

From the results, it is evident that some of the benefits associated with financial literacy are financial satisfaction, better management of personal finances, substantial returns, effective money management, budgeting and record keeping, effective retirement planning and debt management. These benefits would help individuals make informed personal financial decisions. It is also a call for all the stakeholders within the financial sector and without to continuously exploit financial literacy for maximum results of personal financial decisions.

Suggestions for Further Research

This research was designed to determine the role of financial literacy on personal financial decisions made by JKUAT Students. After reviewing the varied responses, gaps which were outside the scope of this research have emerged.

This research was only focused on Jkuat Students hence locking out others that are in the same institution. Future research should evaluate whether members of other JKUAT would exhibit similar results and findings as far as the responses were concerned. In addition, similar research could be carried out with a focus on the management of the JKUAT to find out their perspective on the specific objectives of this research.

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