European Journal of Economic and Financial Research
ISSN: 2501-9430
ISSN-L: 2501-9430
Available on-line at: http://www.oapub.org/soc

DOI: 10.46827/ejefr.v8i4.1787 Volume 8 | Issue 4 | 2024

THE RELATIONSHIP BETWEEN THE FINANCIAL LITERACY OF THE PROPRIETORS AND ENTERPRISE PERFORMANCE OF RETAIL BUSINESSES IN KUTUS TOWN, KENYA

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Abstract:
According to the Economic Survey report of 2023, approximately 83% of Kenyans are literate. This was supported by the preliminary survey conducted in Kutus, which showed that the majority of retail business owners were relatively literate. This study sought to establish the nexus between proprietor financial literacy and enterprise performance of retail businesses in Kutus town. The research was conducted in Kutus, Kirinyaga County, which has numerous retail outlets that pervaded different sectors. Specifically, the study sought to assess whether financial knowledge, financial competence, and financial experience possessed by retail business owners influence business performance. The study was anchored on the financial socialization theory. The study, whose target population comprised the retail businesses operating within Kutus town, adopted the descriptive research design. The study sampled 135 retail businesses using a systematic sampling technique. The study used primary data collected using structured questionnaires. Analysis of the collected data was performed using descriptive and inferential statistical techniques, and results were presented in tables and charts. The study found that all three constructs of the financial literacy variable had a positive and significant influence on the performance of retail outlets. The study, therefore, recommended that proprietors of business entities should retool their financial literacy skills in an effort to improve their entrepreneurial decisions. Further, Institutions of higher learning should develop and launch training programs tailor-made for entrepreneurs to plug the identified financial literacy gap.

JEL: L10; L20; M10; G20

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Keywords: financial literacy, financial knowledge, financial competence, financial experience, enterprise performance

1. Introduction

The Kenyan Economic Survey report of 2023 revealed that approximately 83% of the Kenyan population was literate (KNBS, Economic Survey report, 2023). Literacy is defined as the ability to read and write as well as knowledge and competence in a specified area (Atkinson, 2017). The implication of this finding was that 8 in every 10 Kenyans knew how to read and write. This reflects a significant step made by the successive governments in dealing with illiteracy which was one of the key challenges identified at independence. Notably, this literacy level outperforms that reported by most developing countries situated in Sub-Saharan Africa and Latin America, which stands at 68% (Macrotrends, 2022).

It is, however, notable that high literacy levels do not necessarily translate to financial literacy, which is defined as the degree to which one understands essential financial concepts and possesses the ability and confidence to manage personal finances through appropriate, short-term decision-making and sound, long-range financial planning, while mindful of life events and changing economic conditions (Remund, 2010). According to Klapper *et al.* (2012), financial literacy is a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being.

From the foregoing, it is evident that financial literacy is an important ingredient in achieving both personal and business financial well-being. On a personal front, the widespread poverty characterizing individual households in sub-Saharan Africa was attributed to a lack of basic financial literacy among the populace (OECD, 2021). Lusardi (2018) asserts that financial literacy affects personal financial decision-making, and ignorance about basic financial concepts can be linked to poor retirement planning, reckless borrowing behavior and lack of participation in the stock markets.

Equally, studies have demonstrated that as the global financial markets become more complex and competitive, entrepreneurs are yearning for more financial literacy to enable them to make appropriate investment decisions (Barte, 2022; Nunoo & Andoh, 2021). According to Zuhair *et al.* (2021), entrepreneurship involves making financial decisions on a continuous basis aimed at striking a healthy balance between revenue generation and cost structure in an effort to attain profitability. This need has seen entrepreneurs and business owners enroll in business schools at many universities, locally and abroad, in an effort to retool their financial literacy skills (Olima, 2022).

The connection between financial literacy and entrepreneurship has been explored in numerous studies. Basu (2020) found that financial literacy has become the most important factor in the day-to-day operations of every individual and business. The study argued that entrepreneurs apply financial literacy skills in making informed financial choices that lead to an improvement in business performance due to an improved ability to track business events from the record system. A study by Nunoo & Adoh (2019) suggests that entrepreneurial financial literacy enhances access to utilization of financial services, which facilitates enterprises to invent and exploit growth opportunities. This finding is supported by Hazlina Ahmad *et al.* (2020), who opined that financial literacy is an entrepreneurial competency that enables business enterprises to survive in a progressively unstable environment. Lusardi (2023) suggested that financial literacy enables individuals to process economic information and make informed decisions about financial planning, saving, debt management, and investment diversification, which become progressively imperative to allow individuals and businesses to cope with the ever-rising complexity of financial products and service in the market. Fatoki (2024) stated that financial literacy conveys knowledge and skills that enable entrepreneurs to make financial decisions to improve the financial well-being of their businesses.

1.1 Problem Statement

The Economic survey report of 2023 showed that approximately 83% of the Kenyan population was literate, meaning they knew how to read and write. This finding mirrored the results of a preliminary survey taken on proprietors of retail businesses in Kutus town during the month of March 2024. However, general literacy is different from financial literacy, which entails the possession of financial knowledge, skills and competences necessary to make decisions that spur business enterprises to profitability. Further, although empirical studies have postulated a positive relationship between financial literacy and business performance, these findings can only be vaguely inferred from Kutus town since no specific study has been conducted within this geographical jurisdiction. It is against this background that the researchers set out to address the existing literature gap by conducting the study at hand.

1.2 Research Objectives

The study aimed to assess the relationship between the proprietor's financial literacy and the enterprise performance of retail businesses in Kutus town. Specifically, the study was guided by the following objectives:

1) To establish the relationship between the financial knowledge of the proprietor and the performance of retail business enterprises in Kutus town.
2) To evaluate the relationship between the financial competence of the proprietor and the performance of retail business enterprises in Kutus town
3) To determine the relationship between the financial experience of the proprietor and the performance of retail business enterprises in Kutus town.

1.3 Significance of the Study

Besides contributing to the existing body of scholarly knowledge, the findings from the study are useful in enlightening the proprietors of retail businesses on the need to acquire financial literacy skills as a tool for spurring their enterprises to profitability. Further, the findings from the study would form the basis for institutions that offer financial literacy training to formulate and launch programmes that are relevant to the business community within their locations. Finally, the study will inform policy formulation meant to support entrepreneurs in retooling themselves for better management of their entities.

2. Literature Review

This section reviews both theoretical and empirical literature relevant to the study. It also provides the conceptual framework showing how the variables of the study are interrelated.

2.1 Theoretical Literature

According to Danes (1994), financial socialization is the process of acquiring and developing values, attitudes, standards, norms, knowledge, and behaviors that contribute to financial viability and individual well-being. The theory, which was jointly propounded by Gudmunson and Danes (2011), argued that what children learn about money from their parents will determine their financial well-being both concurrently and throughout their lifetime. Serido *et al.* further observed that although financial socialization continues to occur in adulthood, financial socialization that takes place during childhood and adolescence is particularly important in laying a foundation for and being directly associated with one's financial outcomes. In their conceptual model, Gudmunson and Danes (2016) showed that family socialization is a process with clear inputs and outcomes. Remarkably, the theory described personal and family characteristics as factors such as gender, age, family socioeconomic status, and family marital status. On the other hand, the theory defines family interaction and relationships based on components such as interpersonal communication, relationship quality as well as parenting style. Purposive financial socialization was postulated on the basis of intentional efforts family members use to financially socialize each other. The theory suggests that the components of financial socialization are associated with financial socialization outcomes, which include financial attitudes, knowledge and capabilities. The theory posits that financial attitudes, knowledge, and capabilities are directly linked to financial behavior which is then directly associated with financial well-being. In conclusion, the theory observed that financial well-being is the ultimate goal and is the culmination of many families' financial socialization processes over the life course, with socialization during childhood and adolescence being the most salient.

2.2 Empirical Literature

Financial literacy has been shown to be essential in improving transparency, efficiency, accuracy and accountability, resulting in the organizations achieving their objectives (Koitaba, 2013). In their study, Kumari and Deshika (2021) showed that financial literacy contributed to the improved performance of SMEs operating within the Kegalle district of Sri Lanka. The scholars concluded that technical, financial knowledge, financial market knowledge, and financial management skills by the owners and employees of a business entity significantly boost business performance through speedy and accurate decision-making. The findings from this study correlate with those of another study conducted among Nigerian female micro-entrepreneurs, which also showed that financial education, cash forecasting skills and bookkeeping skills all contributed to better enterprise performance (Tumba, Onodugo, Akpan and Babarinde, 2022).

In another study, Usama and Yusoff (2019) found that entrepreneurial financial literacy had a significant positive influence on the performance of businesses in the Bauchi metropolis of Nigeria. The authors concluded that entrepreneurs who possessed financial awareness, debt management skills as well as investment skills exhibited more capability in running their businesses in comparison to those who barely had these skills. The findings of this study were, however, at variance with those of studies by (Seedhouse *et al.*, 2016; Ukanwa *et al.*, 2018; and Liu *et al.*, 2019), all of which showed that financial literacy did not significantly influence business performance. The studies collectively opined that there were other critical factors, such as economic conditions, levels of income and geographical location, that influenced business performance and financial literacy remotely did so.

In a study carried out by Awais *et al.* (2016), the author found no significant relationship between financial literacy and business investment decisions among the financial sector firms in Pakistan. The study attributed this finding to the fact that financial literacy is just one of the basic ingredients required for entrepreneurs. This finding appears to resonate with the findings of a similar study carried out by Engström and McKelvie (2017), which concluded that the financial literacy of the entrepreneurs operating firms in the Indian informal sector does not affect their profitability.

Njoroge (2013) studied the relationship between financial literacy and entrepreneur success among SMEs in Nairobi City County, Kenya. The findings established that financial literacy had a positive statistical significance on entrepreneurial business performance. Similarly, Cherugong Patrick (2015) studied the effect of financial literacy on the performance of SMEs among 85 small and medium-scale enterprises in Trans Nzoia County, and the findings established that financial literacy has a positive and significant effect on SMEs' performance. The findings of this study were consistent with that of a study by Mwithiga, (2016), who carried out a study on the relationship between financial literacy and the performance of owner-managed ICT SMEs. The study established that financial literacy positively influenced the performance of owner-managed ICT SMEs situated in Kiambu County.

As evidenced by the review of this literature, it is clear that there is a variance in the findings from different studies. Whereas some studies have found a significant positive relationship between financial literacy and business performance, some studies have found that no significant relationship exists. These exhibited contradictions, together with the need to establish the status within Kutus Township, have driven the researcher to undertake this study.

2.3. Conceptualization

The study was conceptualized as shown in the figure below:

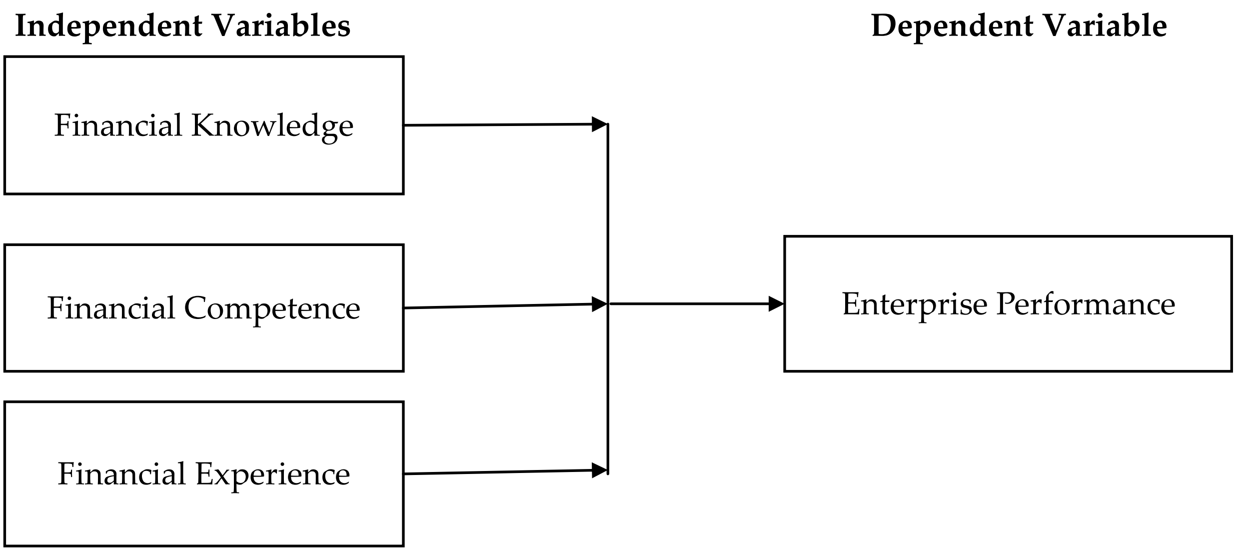

Figure 1: Conceptual Framework

3. Research Methodology

3.1 Research Design

The study adopted the descriptive survey research design. This research design was considered appropriate as it involved collecting cross-sectional data representing the opinions of the sampled respondents on the study variables. Since the study collected and analyzed data in the same status as it was, a positivist research philosophy was adopted.

3.2 Target Population

The study population comprised the registered retail enterprises operating within Kutus Township. The respondents were the proprietor managers of these enterprises.

3.3 Sample and Sampling Method

Purposive sampling was used to identify Kutus Township as the geographical context for the study. This was because the location was convenient and had a broad mix of business enterprises that were relevant to the study. According to records obtained from the County Registration Bureau, 743 retail business enterprises were operating in Kutus. Yamane's equation was used to select 135 retail enterprises for the study. A systematic sampling technique was adopted to locate specific enterprises that constituted the analysis unit.

3.4 Data Collection

The study collected primary data on the variables using structured questionnaires, which were administered face-to-face, considering the majority of respondents required guidance in filling out the questionnaires. The data comprised opinions by the respondents on specific statements, which were designed based on an ordinal Likert-type scale, with 5 representing strong agreement and 1 representing strong disagreement.

3.5 Measurement of Variables

The table below presents the manner in which the study operationalized the variables:

Table 1: Operationalization of Variables

Variable Construct	Measurement
Financial Knowledge	• Financial Education
	• Financial Awareness
	• Financial Communication
Financial Competence	• Financial Skills
	• Financial Confidence
	• Financial Behavior
Financial Experience	• Financial Practice
	• Financial Exposure
	• Financial Ability
Enterprise Performance	• Profitability
	• Growth in Sales

3.6 Data Analysis & Model Estimation

Both descriptive and inferential statistics were used to analyze the research data. Descriptive statistical analysis using frequency distribution, measures of central tendency, and measures of dispersion to provide a preliminary overview of the study population. Inferential statistical analysis involved estimating the specified regression model using the F and t-tests to determine the significance of the overall model and that of specific estimators. This was carried out at a 95% confidence level. The following multiple regression model was estimated by the study:

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu_i \quad (1)$$

Where:
Y_i = Enterprise performance,
β_0 = Constant term,
$X_1 - X_3$ = The 3 explanatory variables of the study,
μ_i = Random error term,
$\beta_1 \ldots \beta_3$ = Regression coefficients of the independent variables,
i = Studied Retail Enterprises.

4. Results and Discussions

4.1 Response Rate

The study administered 135 questionnaires, with one questionnaire issued to each respondent in the selected retail enterprise. At the end of the data collection exercise, a total of 131 questionnaires were filled and returned. This accounted for a 97% response rate. This was considered good for the study.

4.2 Descriptive Statistical Analysis

The ordinal data collected by the study was transformed into a frequency distribution, and the mean and standard deviations of the responses were derived. This enabled the researcher to determine the extent to which the respondents agreed or disagreed with the research statements presented to them. Table 2 below represents the results of the analysis of both the independent and dependent variables.

Table 2: Summary Statistics

Variable	Item	Agg. Mean	Std. Dev
Independent	Financial Knowledge (X1)	4.235	0.243
	Financial Competence (X2)	4.412	0.321
	Financial Experience (X3)	4.031	0.164
Dependent	Enterprise Performance	3.803	0.436

From the above analysis, it can be concluded that the respondents largely agreed that the proprietors' financial knowledge plays a significant role in boosting their enterprise performance as relates to profitability and revenue growth (with a mean agreement level of 4.235 and a standard deviation of 0.243). This could be attributed to the fact that when a proprietor is financially educated, he/she becomes aware of the investment opportunities available to them and is also able to prepare proper books of accounts, unlike a proprietor who is not financially knowledgeable. This, therefore, results in better performance of their enterprises.

It can also be deduced that the financial competence of the proprietors contributes immensely to the enterprise performance of their businesses (mean agreement of 4.412 and std. dev. of 0.321). This could be linked to the fact that proprietors who possess superior financial skills exhibit more confidence in running their businesses and are capable of making better financial decisions that benefit their entities.

Finally, it can be established that the financial experience of the proprietors is a critical ingredient in promoting their enterprise performance (mean agreement of 4.031 and std. dev. of 0.164). Financial experience concerns the practice, exposure and ability to manage the finances of an enterprise. This means that proprietors who have better financial exposure and a superior ability to deploy financial resources are better placed to make financial decisions for their businesses, which results in more profitability and growth in sales revenue.

4.3 Correlation Analysis

Table 3: Correlation Analysis

		Enterprise performance	(X1)	(X2)	(X3)
Enterprise performance	Pearson Corr.	1	0.723	0.833	0.697
	Sig. (2-tailed)		0.031	0.026	0.019
	N	131	131	131	131
Correlation is significant at the 0.05 level (2-tailed)					

From the results laid out in Table 3, the Pearson correlation coefficients show a positive and significant relationship between the independent and dependent variables. The implication is that all the components of financial literacy used in the study were positively related to the enterprise performance of the studied businesses.

4.4 Multiple Linear Regression Analysis

Dependent variable: Enterprise performance				
Variable	**Coefficient**	**Std. Errors**	**t-statistic**	**Prob.**
Constant	3.621*	1.39	2.605	0.000
Financial Knowledge(X1)	2.742	0.605	4.532	0.032
Financial competence(X2)	1.02	0.414	2.464	0.019
Financial experience (X3)	0.837	0.728	1.149	0.0221
Statistics				
R-Squared	0.5753			
Rho	0.4119			
Wald-statistic (4)	210.2			
Prob. (Wald-statistic)	0.000			
*Signifies the coefficient is significant at the 0.05 level				

The results displayed in Table 4 indicate that the studied explanatory variables jointly explained 58% of variations in the enterprise performance of the studied retail businesses in Kutus Township. Further, the Wald Statistic of 210.20 with a probability of 0.0000 evidenced that the overall model was significant at a 95% level. The results show that all three explanatory variables were positively related to enterprise performance as measured through profitability and revenue growth. The relationships were all statistically significant at a 5% confidence level. The finding implied that an increase in the level of financial literacy among retail business owners in Kutus led to their better performance as measured through profitability and growth in sales.

The finding was in consonance with studies by Usama and Yusoff (2019) and Kumari and Deshika (2021), both of which found financial literacy to be a significant ingredient in promoting business management and making accurate investment decisions. The findings, however, contradict those of studies by Awais, Laber, Rasheed and Khursheed (2016) and Engström and McKelvie (2017), both of which posited that financial literacy had no significant relevance on business profitability among retail entities.

5. Conclusions and Recommendations

Based on the findings discussed above, the study concluded that retail business enterprises in Kutus town owned by financially literate proprietors outperformed those owned by proprietors who did not possess financial literacy. Following this conclusion, the study recommended that proprietors of retail business enterprises should be more deliberate in acquiring the necessary financial literacy skills as a strategy for improving the performance of their businesses. Further, Institutions of higher learning should develop and launch training programs tailor-made for entrepreneurs to plug the identified financial literacy gap. Finally, the study recommended that the government should support business owners in financially retooling themselves through appropriate policy interventions such as tax subsidies and subventions.

Conflict of Interest Statement
The authors declare no conflicts of interest.

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