The Role of Financial Literacy on the Profitability of Women Owned Enterprises in Kitui Town, Kitui County, Kenya

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Abstract: ***Women form a higher percentage of the population in the world compared with men. They also form great percentage of all entrepreneurs in the world. The global economy is heavily dependent on the success of women which is seen as one way of creating employment, poverty alleviation and developments which brings about economic growth in rural and urban areas. The government of Kenya is determined to raise middle class status of the nation by the year 2030 through empowerment of women and businesses. In August 2007, the Kenyan government through the Ministry of Devolution and Planning established Women Enterprise Fund which provides accessible and affordable credit support to women to start or expand business for wealth and employment creation. In 2013 a flagship programme to vision 2030 was started, the uwezo fund which is aimed at enabling women access finances to promote businesses and enterprises at the constituency level thereby enhancing economic growth towards realization of the same and the millennium development goals. Despite all these, the women in Kenya face challenges which hinder them from attaining economies of scale. They are financially illiterate which result to poor management of resources and business. The purpose of this paper was to determine the role of financial literacy on the profitability of women owned businesses. The specific objectives of this study are to establish role of budgeting, cash management, savings and record keeping on the profitability of women owned businesses. The study was conducted among the business women in Kitui town, Kitui County, Kenya. A sample of seventy six women business owners were selected for the study using stratified random sampling technique. The study used a descriptive survey research to investigate the factors influencing profitability of women owned businesses. The researcher used self-administered structured questionnaire to collect data from a sample of selected business women. The collected data was coded and entered in computer for analysis. Both descriptive and inferential statistics were used for data analysis. The study concluded that budgeting, cash management, savings and record keeping significantly influenced profitability of women owned businesses. The study recommends that women should be trained in financial related programs to enhance their capacities. The government and other industry players should emphasize on the importance of financial literacy in day to day running of their business. There is need to initiate more financial literacy programs to reach as many women as possible not for proper management of business but also proper management of resources. This will in effect result to increase profitability of their businesses.***

Keywords: Financial Literacy, Women Owned Businesses, Profitability, Kitui

1. Background of the Study

Several researches have long highlighted the importance of financial literacy in developing persons towards financial stability. As a matter of fact, a lot of studies were conducted to determine the level of financial literacy of different individuals. Previous studies focus determines the financial literacy among students (Borodich, Deplazers, Kardash & Kovzik, 2010), loan repayment (Ongesa, Nyamweya, Abdi, Njeru & Gengera 2014), stock market investors (Rooj, Lusardi & Alessie, 2007). These studies explore the financial literacy of different groups of people and determine what explains the variations on the level of their financial literacy. In the United States, study by Lusardi & Mitchell (2007, 2008, 2011a, 2011b), Lusardi & Tufano (2009) found a positive correlation between financial literacy and saving, investment, retirement planning. In Canada a research done by intuit on 500 small business owners on financial literacy indicated that there is deep financial gap among the Canadian small business owners. The study included basic questions, such as what is the role of balance sheet? What is the definition of accruals? How can short term cash flow be improved? Many of these small business owners could not answer any of such questions.

In Kenya, financial literacy has not received the seriousness it deserves. For instance, only a few studies have been carried out around this topic despite its importance. Ongesa et al (2014) evaluates the impact of financial literacy on loan repayment by small and medium entrepreneurs in Ngara and found that financial literacy training improves loan repayment among the small and medium business owners. Equity bank of Kenya (2012) in an article dupped “equity bank steps up its Kshs 1 million bid to boost financial literacy’’ carried out a project to impart personal and business skills to more than 1 million Kenyans particularly the youth.

1.2 Women Involvement in Business

According to Brush and Cooper (2012), women owned businesses are one of the fastest growing entrepreneurial populations in the world. The Global Entrepreneurship Monitor (GEM) indicates that women entrepreneurs create, run and grow businesses across all industrial sectors. Women's enterprise development has become a major priority in many nations around the world since the beginning of 2011. At the March 2011 investing in women and entrepreneurship forum in New York, the UN Secretary General Ban Ki-Moon said in his remarks that 'investing in women is not just right thing to do; it is the smart thing to do'.

In Kenya according to 1999 national micro and small enterprises (SMEs) baseline survey, there were 612848 women in micro and small enterprises accounting for 47.4% of all SMEs (Mwobobia, 2012). Due to the growing number of women in business and their contribution towards the economy, they have become increasingly important in the economic development. Women have predominated the food processing, clothing, and agro-processing, retail and other light-manufacturing sectors. In Kitui the situation is no different as women are in such businesses which range from micro, small, medium and very few large enterprises. They have concentrated more on light manufacturing, clothing, and service industry and retail trade. However despite the great number of women in business and the support accorded to women by the government their performance is still dismal compared to the performance of businesses owned by men. The reason behind this poor performance is yet to be established.

1.3 Financial Literacy

Financial literacy is the ability to make informed judgment and to take effective decisions regarding the use and management of money (Schagen S. 1997). Financial literacy is therefore a combination of a person's skills, knowledge, attitudes and ultimately their behavior in relation to money. Financial literacy has also been defined as, the combination of consumer's/ investor's understands of financial products and concepts and their ability and confidence to appreciate financial risks and opportunities, to make informed choices, to know where to go for help, and take other effective actions to improve their financial wellbeing (World Bank, 2009).

Due to the importance of financial literacy on financial stability and financial decision making of an individual, businesses and growth of a country's economy, it has attracted increasing attention in both the developed and developing world. For example, in January 2008 the United States government set up a president's advisory council on financial literacy. The council was tasked to promote programs that would improve financial education at all levels of the economy. This was to improve access to and utilization of financial services. In the developing world, the Indonesian government declares 2008 as 'the year of financial education' with a stated goal of improving access to and use of financial services by increasing financial literacy. The critical questions that need to be answered are; do women possess enough level of financial literacy? Does the level of financial literacy significantly affect the profitability of women owned businesses in Kenya? To understand financial literacy, factors such as; budgeting, cash management, savings and record keeping are looked at.

1.4 Statement of the Problem

Financial literacy is a problem to many women and this affects the profitability of their businesses. Lack of financial literacy in businesses can be portrayed in different ways, such as household and business finance being mixed together, poor investment and lack of budgeting in business among other ways. Despite all the financial assistance the government has put in place to empower women and their businesses such as the launching of Uwezo fund (2013), women enterprise fund (2007), and directive from the president (2014) that in all government procurement, 30% of the contracts should be given to women, performance of women owned businesses has continued to be poor compared to that of their male counterparts. Many of the businesses started do not get to break even; they fail shortly after they are started. It is on this account that this paper seeks to find out whether women are financially literate and what role does financial literacy play on the profitability of women owned businesses.

2. Literature Review

2.1 Dual process Theory

The study was guided by the dual-process theories (Evans 2008) that embrace the idea that decisions can be driven by both intuitive and cognitive processes. Although dual-process theories come in many different forms, they all agree on distinguishing two main processing mechanisms. One of the processes can be characterized as fast, non-conscious, and tied to intuition (System 1), and the other as slow, controlled, and conscious (System 2), (Stanovich & West 2000). System 2 is responsible for analytical and rational thinking (Stanovich & West 2000) which is needed to consistently implement a financially literate investment strategy. Goel & Dolan (2003) provide neuropsychological evidence for dual processes. Dual-process theories have been studied and applied to many different fields, e.g., reasoning and social cognition (Evans 2008). When linking dual-process theories to decision-making, it has been shown that heuristics and biases, such as framing (Tversky & Kahneman 1981) and representativeness (De Bondt & Thaler 1985; Kahneman & Tversky 1972), are associated with System 1 (Shiloh, Salton, & Sharabi 2002; Kahneman &Frederick 2002, 2005; Mahoney et al. 2011; Alós-Ferrer & Hügelschäfer 2012). System 2 is responsible for the intervention and improvement of the decision. Still, there is also evidence for the superiority of unconscious decision-making. For example, Klein (1999) states that experts under time pressure rapidly retrieve a scheme that provides a solution. Reyna (2004) argues that experts, in contrast to novices, do not need to rely on explicit analytic reasoning while Dijksterhuis et al. (2006) claim that unconscious decisions are better than conscious ones. Gigerenzer & Gaissmaier (2011), Gigerenzer (2007) indicate that heuristics, less computation, and less time can improve accuracy.

Crusius, van Horen & Mussweiler (2012) underline the importance and explanatory power of a process-focused perspective when analyzing economic behavior in various contexts. Lovric, Kaymak & Spronk (2008) present a descriptive model of individual investor behavior in which decisions are driven by dual systems. Nevertheless, in economics and finance, there are only few studies which integrate the idea of dual-process theories into their research. One exception is Godek & Murray (2008) who analyzed the role of rational and experiential processing modes on the willingness to pay for advice. Moreover, Thaler & Shefrin (1981) incorporate the idea of two conflicting processes into their model about intertemporal choice. Gennaioli & Shleifer (2010) present a model of intuitive inference. Kempf, Merkle, & Niessen-Ruenzi (2013) build a link between affective attitudes and stock market expectations. This theory is relevant to the study because it relates financial literacy with analytical and rational thinking. According to Evans (2008) an individual who is a rational thinker makes good financial decisions. Good financial decisions must be thought and critically analyzed. Some of these decisions are where to invest, which insurance scheme to undertake, the level of market participation and how one generally handles money matters in his/her business. Proper record keeping, good cash management among others is a clear indicator of someone who is financially literate.

2.3 Empirical Literature

2.3 Cash Management in Women

According to (Bose, 2014) Cash management implies making sure that all the business generated revenues are effectively managed and utilized in the best way possible. Cash management is not something that the owner of the business can leave to his/her banker, financial planner or accountant. (Halten, 2009) cash flow management requires as much attention as developing a new customers, perfecting products and services, engaging in all other day-to-day operating activities. The basic strategy is to maximize profits and proper use of cash. This means not only ensuring consistent cash inflows but also developing a disciplined approach to cash flows. The business Cash management is the lifeblood of businesses, especially in tough economic times. Owners have to understand working capital management and cash management techniques. They have to understand the concept of free cash flow. They have to be able to prepare cash budgets and statements of cash flows. Forecasting inflows and outflows of cash will give the business owner a picture of when the firm/business will have cash surpluses and cash shortages. This knowledge allows the cash flow to be managed proactively rather than reactively (Halten 2009).

2.4 Budgeting in Women

Budgeting refers to the expenditure planning and cash flow analysis (Uddin, Chowdhury and Zakir, 2009) which is very important to the success of the business operation and processes (Bragg and Burton, 2006). Budgeting incomes and expenditure is the most important factor of business financial finance management and in order to do it correctly financial literacy knowledge is vital. Not budgeting money leads to lower saving and investment rates, lowers the possibility of having retirement plans. Budgeting is a very important part of business and household personal finance management as it raises countries' competitiveness in the long run, with more money fluctuating in the economy.

Regular monthly income and expenses are easier to budget. If you have considerable irregular income and expenses, you will likely have to undertake more cash-flow management. For example, if your car insurance is due every May, you may choose to budget a monthly amount so that you have the funds available when your insurance is due. Alternatively, you may budget a smaller amount and use an anticipated income tax refund to make up the difference. It isn't uncommon for people to find that their income falls short of expenses. You may be able to adjust expenses to overcome this. Alternatively, and if the shortfall has been going on for some time, this can result in the need to borrow — go into debt. Borrowing can also be part of your financial activities at other times. For example, you may decide to borrow for investment strategies or to make a major purchase. In fact, there may be many reasons to borrow.

2.5 Saving in Women

Saving involves setting aside some part of income for future use. Savings is another component which serves as economic security (Braunsten and Welch, 2002) and also for accumulation of wealth (Gokhale, 2000) for an improved living standard. However, lack of necessary discipline and willingness in advancing their business skill including saving ethics (Karides, 2005) women miss business opportunities when they arise. Due to the fact that women play a very crucial role in the management of the family, savings among women is low since the money saved in most occasion are the easiest to reach out to when there is a financial problem at family level. They also save through merry-go rounds which are informal type of saving and hence no interest earned on the money saved.

2.6 Research Gaps

Several researches such as those done by Giné, Menand, Townsend & Vickery (2012), Cohen & Young (2007) offer some evidence that financial literacy is an important determinant of insurance adoption. Tustin (2010) impact of a financial literacy program on savings in Limpopo province (South Africa), using three survey questions, and finds self-reported effects of financial literacy training on saving behavior. Landerretche & Martínez (2012) found that financial literacy increases savings in private pension plans in Chile. In Kenya Ongesa (2014) found that financial literacy had impact on debt repayment. The researcher's main purpose in this study was to fill this significant gap by providing systematic analysis of the role of financial literacy on the profitability of women owned businesses. 'No study so far has been carried out on the role of financial literacy on the profitability of women owned businesses. This is the gap the researcher intended to fill.

3. Research Methodology

3.1 Research Design

Kothari (2014) describes research design as the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. The study adopted a descriptive survey design which was aimed at fact finding enquiries on the role of financial literacy on the profitability of women owned businesses in Kenya a focus on Kitui town. A descriptive survey research seeks to obtain information that describes existing phenomena by asking individuals about their perceptions, attitude, behaviour or values (Mugenda and Mugenda 2003). This research design is deemed appropriate because it will show in-depth investigation on not only the level of financial literacy among women but also the role it has on the profitability of women owned businesses. A sample of seventy-six business owned businesses was selected using stratified random sampling technique. The study population was stratified as hardware businesswomen, service businesses, clothes dealers, general traders and others. A self-administered structured questionnaire was used to collect primary data from the respondents. Descriptive statistics was applied to establish patterns, trends and relationships and to make it easier to understand and interpret the implications of the study. Data collected was then organized, coded, and entered in the computer for analysis using SPSS software. Measures of central tendency and dispersion were used to analyze the collected data and presented using tables and figures.

4. Findings and Discussion

Table 1: Educational attainment

Education level	*Frequency*	*%*
Primary	10	15
Secondary	46	60
College level	15	19
University level	5	6
Total	76	100

The table above shows the educational background of the sample. From the data collected, majority of the business women have secondary education while a few other levels of education. Table 2 displays the summary of the level of financial literacy of micro entrepreneurs.

Item	*Min*	*Max*	*Mean*	*Std. Deviation*
Budgeting	1.00	5.00	3.10	1.16
Cash management	1.00	5.00	3.01	0.81
Savings	1.00	4.86	3.12	1.07
Record keeping	1.00	4.72	3.00	1.09
Overall 1.00	1.00	4.89	3.07	0.83

Table 2 above give result of financial literacy of women business owners. The result revealed that majority of the women business owners are not financially literate (mean =3.07). The lack of financial education could be one of the factor (Anthes, 2004). The other reason might time constraint. Since business and family requires their presence always they might not be able to acquire the necessary financial education.

Record Keeping

It was found out from the data collected that they (business women) had recorded all revenues and expenditures. However, majority of the respondents were still using notebooks and piece of paper in recording their business transactions. The use of appropriate books of accounts such as balance sheet, cash books, journals and ledgers was not observed all the time during collection of data. Rutherford, McMullen and Oswald (2001) explained that it is possible that the small business owners keep records, but not in a formal manner. In addition, separation of business records from personal records was slightly observed. The separation of these two records will help the business owners split business profit from personal profit. On the other hand, majority of respondent did not summarize their records. This task helps them be aware of the result of their business transaction.

Savings

Business women are quite literate in monitoring their sales over the expenditure most of the time. They understand that in order to save they should have surplus at least. However, the respondents did not consistently set aside funds for future expenses. It was not manifested all the time that they were planning to have a ready money for their unexpected expenses through savings. It was also found out that majority of the business owners did not deposit their extra money in the bank or invest in cooperative this is because they are not setting a target percentage out of their surplus in savings. What they knew is whatever money they have after deducting all personal expenses that will be the savings for them. Jacob, Hudson and Bush (2000) emphasized that many lower-income persons are capable and have desire to save but have trouble in doing so for purely economic reasons. Majority of the women are not considering investing into other business opportunity using their savings. They would rather use other source of funds such as loans than to use their extra money. The data collected also showed that majority of the business women were members of many merry go round as a way of saving, they preferred this method as a method of saving rather than saving with the banks.

Budgeting

With respect to controlling their business spending women are moderately literate. They were not consistent in planning about when to spend and what to spend in their business. Literacy on making written plan for the next month sales and business spending were both moderate. This means that business owners sometime make a written budget and sometimes not at all. These written plans are important for monitoring purposes but were not able to do this on regular basis. The budgets were also not regularly monitored. In terms of financial budgeting, the financial literacy of women was not manifested all the time. One of the evidence is the respondents were not computing the payback period for their capital expenditure. Based on the findings above, business owners are not prepared to manage their business properly. Jacob (2002) found that acquiring financial knowledge is a critical financial management tool. It is a tool for ensuring that not only the privileged few have the knowledge and ability to effectively build assets, manage their debt, and avoid being misled, exploited or cheated by the plethora of aggressively marketed financial products that are now available. However, acquiring these business skills is less important to them based on the result. What they know about business is purely selling their products. Other factors are not important as long as consumers will buy their products. From the findings also, women confessed of going out to spend on things which were not initially budgeted for. This was so because their role in the family and the impulse buying tendency.

4.1 Cash Management Perspective of Financial Literacy

The results as depicted by table 1 indicate that most of the business women do not engage in formal financial planning, budgeting and investment. Pandey (2009) points out that cash budget are most significant device to plan for and control cash receipts and payments. There is a positive relationship between having a formal financial planning, budgeting and investment and business success. It was found that women who kept proper records tracking cash flow had their businesses doing better than those who never did.

4.2 Budgeting Perspective of Financial Literacy

Budgeting is an aid to better management of business and to achieve higher profits or minimize losses. Warue & Wanjira (2013) find that lack of budgeting is one of the causes of failure for small businesses. Uwonda et al (2013) find that failures in many SMEs can be linked too inadequate cash flow managements. The majority of women owned businesses do not prepare cash budgets. However, Torres (2008) found that small business owners are not concerned about budgeting; their concern is more of the cash flow. In terms of financial budgeting, the financial literacy of micro entrepreneurs was not manifested all the time. One of the evidence is the respondents were not computing the payback period for their capital expenditure.. Achieving your goals and taking control of your finances usually works better with a plan. And a key part of a financial plan is a budget. Many people do not use a budget. As a result, many people get themselves into financial problems Based on the findings above, business owners are not prepared to manage their business properly. Jacob (2002) found that acquiring financial knowledge is a critical financial management tool. It is a tool for ensuring that not only the privileged few have the knowledge and ability to effectively build assets, manage their debt, and avoid being misled, exploited or cheated by the plethora of aggressively marketed financial products that are now available. However, acquiring these business skills is less important to them based on the result. What they know about business is purely selling their products. Other factors are not important as long as consumers will buy their products.

5. Conclusion

The study was able to determine the role of financial literacy on the profitability of women owned businesses. It was found out that financial literacy has a role to play in the profitability of women owned businesses. This is because the level of financial literacy influenced how businesses were managed and hence the profitability of businesses. Financially literate person had ways of managing cash for the business, prepared budgets and saved the surplus cash.

5.1 Recommendations

The researcher recommends that more efforts should be put in place to equip women with financial literacy skills which will enable them perform their businesses better. This should be done at early stages in the learning system so that as they exit school they are fully equipped with necessary skills to not only manage their businesses but also to manage their finances well. The financial institutions and other non-governmental organizations dealing with women should also focus on improving the levels of financial literacy of women through training especially before they give them financial assistance or loans. This will go a long way in ensuring that the received funds are properly invested and payment made without hurdles.

5.2 Suggestions for Further Research

The researcher recommends that further research should be done on other factors of financial literacy to determine what role they have on the profitability of businesses.

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