

**Financial Literacy on Investment Decisions Among Public Secondary School Teachers  
Under Teacher Service Commission in Meru County Kenya**

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**A Thesis Submitted to the School of Business and Economics in Partial Fulfillment of the  
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University**

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## DECLARATION AND RECOMMENDATION

I declare that this thesis is solely authored by me and no other researcher has previously submitted a comparable document to any university.

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Supervisor's Declaration

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## **DEDICATION**

I dedicate this thesis to my late father, Mr. Donald Patrick Chorongó who instilled in me a reading culture. May his soul continue resting in peace.

## **ACKNOWLEDGEMENT**

I would like to express my heartfelt gratitude to Mr. Fredrick Mutea and Ms. Adel Kanyiri my supervisors, for their invaluable mentorship and patience, which greatly enhanced my comprehension of the process of composing this thesis. Working under their guidance was a truly fulfilling experience. Additionally, I extend my appreciation to the librarians and staff of Kenya Methodist University, whose support in procuring relevant resources during my thesis writing journey was invaluable.

## ABSTRACT

In Kenya, the education sector receives the greatest share of the national budget, with a sizable amount going toward teacher wages because of their high employment rates. The purpose of this study was to assess how financial literacy affected the investment choices made by public secondary school teachers in Meru County, Kenya. As stated in the Solution SACCO annual report for 2022, it aimed to comprehend the difficulties teachers encounter when preparing for their financial future and the part financial literacy plays in this regard. The study specifically examined the influence of debt management knowledge, saving literacy, budgetary skills, and risk diversification on the investment choices of these teachers. The research was grounded in several theoretical frameworks, including Financial Literacy Theory, Prospect Theory, Dual Process Theory, and Goal Setting Theory, which provided a foundation for the review of related literature. The analysis was conducted in accordance with the conceptual framework and goals of the study. 1,825 teachers working in public secondary schools throughout Meru County were part of the target group. Both primary and secondary sources of data were used in the descriptive study approach. Purposive sampling was utilized in the study to choose schools from Meru County's nine sub-counties, and 328 respondents were chosen by simple random selection. Thirty teachers in Tharaka Nithi County, or 10% of the sample size, participated in a pilot study of a self-administered questionnaire to verify the validity of the research instruments. The questionnaire was improved by academic supervisors' feedback, which cleared up any misunderstandings and removed unnecessary items. The distribution and collecting of surveys were accomplished utilizing the drop-and-pick approach. Following collection, the data was examined for flaws, including typographical errors and unanswered questions. After being coded, the data was analyzed using the Statistical Package for Social Sciences (SPSS). Regression analysis, ANOVA tests, and coefficients of determination were used to investigate correlations and develop the model equation before the results were displayed in tables. Pearson correlation analysis was used to evaluate hypotheses, and descriptive statistics such as mean and standard deviation were computed. Reports, frequency distribution tables, and infographics provided summaries of the results. With an R<sup>2</sup> value of 0.691 from the multiple regression analysis, financial literacy variables accounted for 69.1% of the variation in investment choices made by Meru County's public secondary school teachers. Specifically, knowledge in debt management, saving, and risk diversification demonstrated significant positive effects on investment decisions, with coefficients of 0.045, 0.363, and 0.340, respectively, and p-values below 0.05. Conversely, budgetary literacy showed a positive but statistically insignificant relationship with investment decisions, as reflected in a p-value of 0.138 and a coefficient of 0.078. According to the data, teachers in public secondary schools often follow good financial habits, such as avoiding loan defaults, closely examining credit terms, making timely loan repayments, and using unsecured loans sensibly. The study suggested encouraging teachers who work for the Teachers Service Commission (TSC) to adopt a saving and investing mindset. It also emphasized the need for more studies to examine non-financial aspects that can affect educators' investment choices.

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## **ABBREVIATIONS AND ACRONYMS**

<b>CMA</b>	Markets Authority
<b>FLEC</b>	Financial Literacy and Education Commission
<b>HRS</b>	Health and Retirement Study
<b>KRA</b>	Kenya Revenue Authority
<b>MoFEP</b>	Ministry of Finance and Economic Planning
<b>NACOSTI</b>	National Council for Science and Technology and Innovation
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>RBA</b>	Benefits Authority Capital
<b>SPSS</b>	Statistical Package for Social Sciences
<b>TSC</b>	Teacher Service Commission
<b>UK</b>	United Kingdom

## DEFINATION OF OPERATIONAL TERMS

**Budgetary literacy:** means you've got an excellent grasp of budgeting theory and practice. It involves having the skills and ability to effectively manage personal finances by creating and following a budget.

**Debt management:** refers to the process of effectively managing and controlling one's debts in order to achieve financial stability and reduce the burden of debt.

**Financial literacy:** refers to an individual's capacity to comprehend important financial principles and employ sound judgment while making choices concerning financial affairs.

**Financial saving literacy:** means being able to identify ways to save costs and implement sound financial practices for one's own household.

**Risk diversification:** involves distributing risk across multiple areas to minimize the potential negative consequences of being exposed to any particular variable.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the study

The concept of financial literacy has been increasingly recognized and emphasized, particularly in developed nations, over the past few years. Drawing upon the definition provided by Otoritas (2016) literacy in a financial context refers to the proficiency to administer the resources at hand with the objective of attaining enhanced living standards and fostering growth for the future. Nanziri and Leibbrandt (2018) further elaborate on the concept of investment as a mechanism through which current financial assets are committed to securing higher future returns.

Fund allocation is predominantly directed towards three domains: investment, savings, and consumption. Of these, the allocation category that tends to yield the highest future benefits is investment, as stated by Arianti (2018). This underlines the significance of investment planning within the framework of personal finance. As noted by Pritazahara (2015) it serves as a self-guided learning trajectory to administer present and future finances.

A lack of robust financial literacy can pave the way for various financial quandaries. One such prevalent issue is associated with the planning of finances for future needs, such as investments. Expanding upon this, Abou Ltaif et al. (2024) articulate financial literacy as the method by which individuals comprehend and apply fundamental financial concepts for effective planning and management of financial decisions. This includes activities such as insuring, investing, saving, and budgeting, signifying that financial literacy extends beyond mere transactional motives and covers a more comprehensive range of financial operations. Hence, the understanding and application of financial literacy ought to be holistic, encompassing both the acquisition of funds and their full exploitation.

The decision to invest involves making tradeoffs between immediate consumption and saving for future consumption benefits. This means that individuals have to choose between using their

money now or setting it aside for later with the expectation of earning returns. According to Kumari (2020) investors are considered financially literate when they possess sufficient information and knowledge about the financial products they plan to invest in. Financial literacy encompasses various areas of understanding, as highlighted by Lusardi (2015).

Investors are generally assumed to be competent and rational, and they make decisions based on their anticipated benefits. Kumari (2020) suggests that investors are risk averse, and their preference for utility follows a concave function. According to Blankespoor et al. (2020), share prices are primarily determined by rational investors, leading to an equilibrium grounded in rationality. Peiris (2021) found that financial literacy significantly influences the investment and saving behavior of households. Moreover, Brown et al. (2018) demonstrate that individuals who have received financial education either in educational institutions or in their work environments tend to save more than those who lack such exposure.

Gal and Rucker (2018) proposed that individuals tend to exhibit risk aversion when anticipating gains and risk-seeking behavior when anticipating losses. Foss et al. (2019) and Markowitz (1952), on the other hand, argued that investors function within a market that lacks transaction costs and uninsurable risks. Moreover, Foss et al. (2019) found that investors generally tend to avoid unfamiliar financial products.

### **1.1.1 Financial Literacy**

The concept of financial literacy originated in 1787, referring to the importance of Americans acquiring the necessary knowledge to overcome the economic difficulties and confusion prevalent in the country. This was due to a lack of understanding about the American currency, its circulation, and credit. Since then, researchers have adopted and adapted the term in various contexts, and it has become a widely used term in the field of finance (Chandran & Chandran, 2018).

Financial literacy, as outlined by Atakora (2018) encapsulates the competencies and insights necessary for adept financial management, including investing and spending decisions. This entails a comprehensive understanding of financial services, discerning potential risks and opportunities, and making knowledgeable choices to enhance one's financial standing (Lusardi et al., 2021).

Taking the definition a step further, Watanapongvanich et al. (2021) describe financial literacy as a fusion of familiarity with financial services and concepts, coupled with the capability and confidence to evaluate associated risks and benefits. In this study, we refine the term 'financial literacy' to mean the ability to proficiently manage and employ financial resources, predicated on an understanding of financial principles.

Therefore, instilling a robust sense of financial literacy is an imperative facet of societal development. This literacy equips individuals with the skills needed to navigate complex financial landscapes, ultimately contributing to their personal financial health and the broader economic stability of their community.

There are many interpretations of financial literacy offered by numerous scholars. However, for the context of this study, the definition posited by Saadah (2020) is deemed appropriate. Saadah characterizes financial literacy as a person's aptitude to scrutinize, evaluate, manage, and communicate about financial circumstances that could affect their financial well-being.

This proficiency involves the capacity to discern between diverse financial options, converse confidently on matters of finance, and strategize for future financial circumstances. Additionally, it includes the capability to aptly react to economic incidents and life events that could potentially alter an individual's financial decisions. Consequently, financial literacy serves as a crucial tool in enhancing personal financial stability and overall economic competence.

Developed countries demonstrate the benefits of financial literacy, such as ensuring timely bill payment, managing debts, improving credit scores, promoting economic growth, fostering robust financial systems, and reducing long-term poverty (Siekei et al., 2017). Moreover, financial literacy empowers individuals to control their financial future, access a wider range of financial products, and mitigate exposure to fraudulent schemes.

Greater household wealth and wise financial decisions are associated with higher numeracy skills, while unnecessary expenditure is linked to a larger population of people living in poverty (Rooij et al., 2007). The importance of financial literacy has grown due to the liberalization of financial markets, increased credit accessibility, immediate credit card issuance, and the rapid commercialization of financial products. Mandell (2008) suggests that achieving various targets, such as raising public awareness of the financial system, improving consumer security, and tackling financial crime, requires a greater emphasis on financial literacy.

According to Rai et al. (2019), financial literacy begins within the household as children learn the importance of saving and making wise shopping choices. Jeston and Nelis (2014) state that business acumen training is crucial for most managers and practitioners, as it enables them to provide confident and informed recommendations. Green (2006) highlights the significant impact of financial literacy training programs in fostering the exchange of financial information between employers and employees.

Navickas et al. (2014) and Refera and Kolech (2015) have found that education level, employment experience, and course content are factors associated with improved financial management skills among individuals. The level of education refers to the highest formal instruction received, including diploma, undergraduate, postgraduate, and doctorate levels. Job experience represents the knowledge gained through work over the years of employment. In this study, job experience will be measured in terms of the number of years in employment.

Course specification pertains to the type of program undertaken by individuals in areas such as finance and accounting, risk management, economics, and strategic management.

A more accurate assessment of financial literacy may be attained by including curriculum areas such as money basics, borrowing, investing, and resource protection, as suggested by research (Hasan et al., 2021). The present survey will incorporate four significant factors, namely debt management, budgeting, savings, and risk diversification which are distinct and crucial in determining financial literacy.

### **1.1.2 Investment Decision**

According to Ademola et al. (2019), the act of persons with savings committing their finances to capital assets, products, or services with the hope of earning a favorable rate of return is referred to as an investment. The crucial aspect of investment is the anticipated return, which necessitates effective management of the invested assets to ensure their value appreciates at the very least. Making investment choices requires deciding how much cash should be invested, when it should be invested, where it should be invested, and when and where it should be invested. In the case of individual investments or corporate management, these decisions are supported by decision tools, including financial literacy, to help achieve a satisfactory return. Such tools involve conducting investment analysis using both fundamental and technical analysis methods. Once the decision to invest is made, further research is conducted to evaluate the costs and potential returns associated with various available options.

Investment planning plays a crucial role in securing a comfortable retirement and provides a potent incentive for strategic financial protection, as observed by Musundi (2014). The main motivations for engaging in investment planning are twofold: first, the aspiration to amass assets, and second, the desire to generate income from those assets.

In order to effectively execute investment planning, individuals must exercise discernment in making personal investment decisions. This process entails allocating finite resources among a

variety of competing financial products available in the market, while carefully weighing the associated risks and returns.

As underscored by Lee and Shin (2018), making an investment decision is not a straightforward task. It necessitates a comprehensive evaluation of the opportunities or projects at hand, factoring in their scale, timeline, and the potential to forecast anticipated cash flows for assessment. This implies that a thorough understanding of each investment's potential and risk is key to making informed investment decisions.

Investment decisions represent some of the most critical choices one must make, with significant implications for future financial stability. Therefore, it's crucial for individuals to become proficient in understanding monetary dynamics and developing financial flexibility. Given the abundance of investment products available, navigating financial matters requires adaptability and financial savvy.

Moreover, national governments have recognized the value of fostering a culture of savings and investments. As a testament to this, many pension funds mandate contributions and offer members the possibility to invest these funds later in life when their earning potential may decrease. This strategy not only promotes individual financial security in later years but also contributes to a stable economic environment.

### **1.1.3 Public Secondary School Teachers**

Teachers, like individuals worldwide, encounter intricate financial products and must make crucial choices regarding investments. Having a strong understanding of financial concepts is essential when analyzing, selecting, and investing in the most beneficial investment opportunities. Having this information improves the likelihood of making successful personal investment decisions by considering factors like one's competitive advantage, investment risks, investment returns, sources and costs of money, financial inclusion, and various financial market dynamics.

In a study conducted by Prasad and John (2022) the researchers evaluated the extent of financial literacy among educators in higher education institutions in Hyderabad, India. The significance of this group stems from their substantial societal influence as teachers.

To collect the data, the researchers employed a structured questionnaire divided into two main sections. The first section delved into the socio-demographic characteristics of the participants, while the second section explored their financial literacy profile, examining elements such as financial education, numeracy, knowledge, attitudes, and financial behaviors. To enrich their primary data source, the researchers also integrated findings from secondary research, offering a more comprehensive understanding of the participants' financial literacy levels.

The researchers used descriptive analysis to evaluate the gathered data. Their findings revealed that a fifth (21%) of the teaching staff in higher education institutions in Hyderabad demonstrated robust financial literacy. However, the lion's share (58.5%) showcased a moderate command over financial literacy. Interestingly, female educators appeared to possess a marginally superior financial literacy level relative to their male colleagues. In the context of financial numeracy, male teachers in Hyderabad scored well, with 70% of them answering the relevant questions correctly. However, the performance of their female counterparts on these questions wasn't explicitly mentioned, implying a potential scope for further investigation.

According to Owusu (2015) teachers in Ghana face challenges in financial planning, budgeting, savings, and spending habits. They also lack knowledge in areas such as stocks, bonds, and fixed deposits, leading to inadequate decision-making and investment skills.

Similarly, the decision-making process for investments is hampered in Kenya by a lack of financial knowledge. Employees in Nakuru County, according to Wangeci (2017), know very little about financial instruments including as equities, shares, mortgages, and mutual funds. This lack of financial knowledge hinders their ability to negotiate better returns on investment

and affects their financial security and living standards. It is crucial for individuals to enhance their financial skills to effectively manage their financial affairs.

In Kenya, the Ministry of Education oversees the management of teachers, while the Teachers Service Commission (TSC) functions independently and is in charge of hiring, promoting, compensating, and disciplining teachers. This research is centered on secondary school teachers from Meru County who are currently under the employment of TSC. The National Social Security Fund (NSSF), a retirement savings plan established by the government, is available to teachers. Moreover, multiple Savings and Credit Cooperative Societies (SACCOs) like Mwalimu National SACCO and Meru County's Solution SACCO have been established specifically for teachers to facilitate voluntary savings. In recent years, teachers, through their unions, have been pushing for increased compensation and enhanced working conditions. In May 2023, records from the County Director's office revealed that Meru County has a total of 1,825 secondary school teachers working under the Teachers Service Commission. These teachers serve across 192 secondary schools in the county.

## **1.2 Statement of the Problem**

Customers are presented with a dizzying choice of investment products and services in today's complex financial world, many of which are intended to meet their various financial needs. Because of this abundance, people must acquire the financial knowledge and abilities needed to assess these possibilities critically and choose the ones that best suit their particular situation. Financial literacy is widely recognized as a critical enabler in this process, equipping individuals with the tools needed to manage their finances effectively and mitigate the risks associated with poor financial decisions (Lusardi et al., 2010). It empowers individuals to budget wisely, manage debt responsibly, save for the future, and make informed investment choices, thus fostering long-term financial well-being. Mwaniki (2019) emphasizes that financial literacy is fundamental in helping individuals achieve effective personal financial

control by minimizing the risks of poor financial management. This perspective highlights the importance of financial education as a foundation for sound decision-making in a dynamic financial landscape.

However, the relationship between financial literacy and effective financial decision-making is more complex and nuanced than it may initially appear. Some studies suggest that individuals can demonstrate prudent financial behaviors even in the absence of high levels of financial literacy. For example, Ansar et al. (2019) in their study of Generation Y in Malaysia, argue that factors such as financial attitudes, habits, and access to guidance can significantly influence financial management practices, challenging the notion that financial literacy is the sole determinant of financial behavior. Similarly, Walakumbura (2021) in research conducted among medical practitioners in Sri Lanka, found a connection between financial skills, knowledge, and investment decisions, underscoring the importance of contextual and individual factors in shaping financial behaviors. These findings reveal that while financial literacy plays a crucial role, its impact is mediated by various psychological, social, and economic variables, necessitating a broader and more tailored approach to financial education. Such an approach should account for the diverse needs and challenges faced by different populations to enhance the overall effectiveness of financial literacy initiatives.

Taking into account the Kenyan context, as of June 2023, deferred deductions for teachers, as reported by the Teachers Service Commission, amounted to 8.5 million. These deductions encompass bank and SACCO loans, hire purchase agreements, and social welfare group loans, in line with the stipulations of the Employment Act (2007). Despite widespread awareness of this policy, many teachers find themselves accruing more loans, signaling potential financial management issues. Further evidence of these challenges emerges from the Solution SACCO, a popular savings and credit cooperative organization among secondary school teachers in Meru County. According to this institution's data, roughly 10% of teacher members missed loan

payments, and a large number of the SACCO's investment programs for the county's teachers are underperforming because of poor member uptake (Solution Sacco annual report, 2021).

The underperformance of these investment plans and high loan default rates indicate that teachers might be grappling with financial management issues. The root cause of these issues could be attributed to the effects of financial literacy, or lack thereof, on their investment decisions.

This study's primary goal was to investigate how teachers' financial literacy influences their investment choices, specifically how their degree of financial literacy influences how they handle investments. By investigating this relationship, the research sought to uncover insights into how financial literacy contributes to or hinders sound investment behavior among educators. The study aimed to provide a deeper understanding of how financial education, awareness, and decision-making skills interplay to shape the financial strategies adopted by teachers in managing their resources. Additionally, this research intended to highlight areas where gaps in financial literacy might exist and explore how these gaps could impact the ability of teachers to make informed and strategic investment choices. Ultimately, the findings aimed to offer practical recommendations for enhancing financial literacy programs and fostering better financial management practices within the teaching profession, contributing to their long-term financial stability and security.

### **1.3 Objectives of the study**

#### **1.3.1 General Objectives**

The main objective of this study was to assess the effect of financial literacy on investment decisions among public secondary school teachers in Meru County Kenya.

#### **1.3.2 Specific Objectives**

The study was to be informed by the following specific objectives;

- i To establish the effect of debt management literacy on investment decision among secondary school teachers in Meru County.
- ii To assess the effect of saving literacy on investment decision among secondary school teachers in Meru County.
- iii To determine the effect of budgetary literacy on investment decision among secondary school teachers in Meru County.
- iv To establish the effect of risk diversification on investment decision among secondary school teachers in Meru County.

#### **1.4 Hypotheses**

The following hypothesis was tested using a null hypothesis;

**H01:** There is no significant relationship between debt management literacy and investment decision among secondary school teachers in Meru County.

**H02:** There is no significant relationship between saving literacy and investment decision among secondary school teachers in Meru County.

**H03:** There is no significant relationship between budgetary literacy on investment decision among secondary school teachers in Meru County.

**H04:** There is no significant relationship between risk diversification and investment decision among secondary school teachers in Meru County.

#### **1.5 Significant of the Study**

Evaluating the population's knowledge and skills, particularly in areas such as debt management, saving habits, budgeting, and risk diversification, is crucial for designing an effective financial literacy strategy for working individuals. This process helps identify specific financial needs and gaps, as well as pinpoint groups that may be more vulnerable to financial challenges. Such insights are essential for tailoring initiatives to address key aspects of personal finance and provide targeted support where it is most needed. Teachers, businesses, and other

organizations may all benefit from this research by better understanding where and how financial literacy needs to be applied in the classroom.

### **1.5.1 Teachers**

The research's results might provide educators a better idea of how they stack up in terms of their own decision-making skills when it comes to money.

### **1.5.2 Teacher's Employer**

Employees facing personal financial difficulties often carry these challenges into the workplace, potentially impacting their productivity and overall performance. Therefore, the results of this study could be valuable for employers seeking to promote a culture of responsible financial management within their workforce. Encouraging better financial practices among employees not only benefits their personal well-being but also contributes to a more focused and efficient work environment.

### **1.5.3 Government of Kenya**

In addition to helping a country's economy grow and flourish, financial literacy also improves the quality of financial services. Financial firms profit from a financially educated population because customers who are well-informed are more likely to see their company favorably. A well-informed populace that can wisely invest in the country's long-term economic health and the creation of new employment stands to gain the most.

### **1.5.4 Researchers and scholars**

This research has the potential to add to the academic field's current theoretical and empirical literature and serve as a starting point for future investigations of financial literacy.

## **1.6 Limitations of the Study**

Some respondents may be hesitant to submit enough information since the research aims to gather data on the impact of financial literacy on investing choices, which may be seen as personal and sensitive by some. The researcher will ensure participants that their responses will be kept private and will explain that the data will be used for academic purposes only.

Researchers promise to make an effort to improve response rates and the reliability of respondents' responses.

### **1.7 Delimitations**

The investigator sought authorization from the relevant administration to conduct the study and ensured respondents were fully informed about its purpose and significance. Participants were also assured that any information provided would be treated with strict confidentiality. Given that respondents' busy work schedules could pose a challenge to participation, the researcher emphasized the importance of their input and obtained administrative support to facilitate the study.

### **1.8 The Scope of the Study**

The study focused on examining the impact of financial literacy on the investment decisions of teachers employed in public secondary schools in Meru County. It specifically explored how knowledge in debt management, savings, budgeting, and risk diversification influenced the investment choices made by these educators. The study targeted 1825 public secondary school teachers in Meru County and employ descriptive design to carry out the survey. The study used questionnaire for primary data collection and focus on data collection within the month of June to August 2023 when the teachers were not very busy preparing the candidates for the year end examinations.

### **1.9 Assumptions of the Study**

The key hypothesis of this study was that budgetary decisions are made by teachers in Meru County's public secondary schools. It assumed that the respondents were provided with accurate reflections of their levels of financial literacy and their decision-making processes. The selection of the study group was predicated on the belief that this population offered a conducive environment for the researcher to collect the requisite data for this study.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This section will provide a comprehensive literature review, specifically focusing on the impact of financial literacy on financial investment decisions. It will cover an examination of relevant theoretical perspectives, empirical studies, and the conceptual framework. It will also detail the operationalization framework, summarize the reviewed literature, and identify gaps in current research. This review will predominantly concentrate on previously conducted research pertaining to the variables under study.

#### **2.2 Theoretical Framework**

This section explores the theoretical frameworks that underpin the relationship between financial literacy and investment decisions. It examines various theories, including financial literacy theory, prospect theory, dual-process theory, and goal-setting theory, to provide a comprehensive understanding of the subject.

##### **2.2.1 Financial Literacy Theory**

The idea of having a solid understanding of one's financial situation is firmly ingrained in the overarching structure of human capital investment (Gallery et al., 2011). According to this point of view, financial knowledge is an essential element of human capital, and empirical investigations further support the idea that a deeper degree of comprehension is required for making decisions based on accurate information. Financial literacy suggests that individuals with advanced financial knowledge may base their actions on the interplay between the two modes of thinking described in dual-process theories. These two modes of thought include intuitive thinking and cognitive thinking.

The dual-process theories uphold the concept that both intuitive and cognitive thinking processes may have an effect on a person's ability to make decisions. The separation into two

major processing processes or systems is a feature shared by the many distinct iterations of the dual-process theory. Although these theories take many different shapes, they share this feature. According to Stanovich and West (2000), the first system functions quickly, subconsciously, and on the basis of intuition, whereas the second system engages in deliberate, regulated, and conscious reasoning. This second system provides the foundation for analytical and logical reasoning, which is essential for the steady execution of an investment strategy informed by financial literacy. Such reasoning is a prerequisite for maintaining consistency in implementing a financially sound investment plan.

In recent years, there has been an increased emphasis placed on financial literacy. This is mostly because to the rapidly changing nature of the financial environment in both established and emerging nations. According to Atkinson and Messy (2005), financial literacy is defined as a combination of an investor's knowledge of financial products and ideas, as well as their capacity and self-assurance in their ability to grasp financial dangers and possibilities. This knowledge enables people to enhance their financial well-being by making choices based on accurate information, seeking support from the relevant sources, and taking successful actions.

In order for investors to be able to make educated choices about money in a manner that is relevant to their companies, financial literacy is an extremely important factor that plays a key part in empowering and educating them. It makes it possible to analyze items and come to informed conclusions thanks to the tools that it gives. According to Lusardi and Oliver (2006), having a deeper understanding of financial matters might make it easier to manage the intricacies of advanced credit markets.

Another essential component of having a solid understanding of finances is being able to plan ahead for difficult economic times. This may be accomplished by using risk-mitigation measures, such as putting money aside, diversifying one's assets, and buying insurance. A prospective borrower's creditworthiness may be improved by increasing their level of financial

literacy, which permits more effective decision-making processes such as prompt bill payments and good debt management. This may help maintain livelihoods, promote economic development, cultivate solid financial systems, and contribute to the alleviation of poverty.

In addition, having a solid understanding of personal finance may provide a greater degree of control over one's own financial destiny, improved use of financial goods and services, and a reduced likelihood of falling victim to deceptive practices or excessively pushy merchants. A better-informed public puts more pressure on financial authorities to enhance the efficiency and caliber of the services they offer (Falicov, 2001).

In terms of how investors should conduct themselves with regard to their investments, Locke and Mann (2005) recommend that investors maintain their discipline and stick to the investing plans they have devised. Investors who have a strong understanding of finance but depend on their gut instincts may be more likely to deviate from their investment plan. On the other hand, there is research that demonstrates how well unconscious decision-making may work.

### **2.2.2 Prospect Theory**

The theory under examination in this study, originally proposed by psychologists Kahneman and Tversky in 1979, is known as prospect theory. It pertains to the decision-making process of individuals when faced with risks. Decisions involving potential threats are seen as choices between different actions, each associated with specific probabilities or gambles. Initially developed for simple prospects involving monetary gains and known probabilities, the decision-making process can be divided into two stages. The first stage, known as editing, involves analyzing the prospects and simplifying the representation of probabilities. The final stage involves evaluating the prospects to select the option with the highest value. The theory primarily focuses on subjective decision making influenced by an individual's value system.

Despite the considerable influence of the prospect theory, some scholars have challenged its practical application. Barberis (2013) notably critiqued the theory, highlighting that the original

creators didn't provide a comprehensive definition for gains and losses, making the practical use of prospect theory quite problematic. Additionally, the theory's utility in real-world situations, particularly where probabilities are minute and individuals have the capacity for rational decision-making, is yet to be definitively proven.

Furthermore, Nwogugu (2005) took the critique a step further, suggesting that decision-making and risk assessment processes involve multiple criteria and thus, these complex processes cannot be neatly encapsulated within rigid quantitative models. Such critiques underscore the importance of acknowledging the limitations of existing theoretical frameworks and the need for more flexible, comprehensive models that consider the complex and multifaceted nature of financial decision-making. Additionally, researchers have utilized prospect theory to explain why many households lack diversity in their investment portfolios. Some households opt not to diversify and instead invest in positively skewed stocks, hoping for substantial gains. However, due to loss aversion, the wide range of possible returns displayed by the stock market distribution may deter potential investors. To overcome this aversion, stocks must offer higher returns than safer investments like Treasury bills. This study aims to explore the role of prospect theory in explaining risk diversification, saving literacy, and investment decision making.

### **2.2.3 Dual Process Theory**

The theory presented by Petty and Cacioppo in 1986, based on societal psychology, acknowledges the influence of both intuitive and cognitive processes on economic assessments. It suggests that a lack of financial literacy can lead to unsound financial decisions. Contrary to the belief that individuals who possess financial literacy rely solely on intuitive and cognitive approaches in decision-making, the Dual Process theory challenges this assumption (Glaser & Walther, 2013).

Intuition refers to acquiring awareness without logical implications. It encompasses beliefs, judgments, or perceptions that are not deduced through logical means. Taylor (1981) argues

that decisions made based on intuition can still be considered rational, as individuals are often influenced by their emotions. Glaser and Walther (2013) propose that financial literacy, despite its influence, is moderated by intuition when it comes to informed financial investments. Cognition, on the other hand, involves making systematic decisions by gathering, summarizing, analyzing, and utilizing detailed information. Chan and Park (2013) describe it as a psychological capacity to understand, interpret, analyze, and apply information. They note that individuals with high cognitive abilities tend to be analytical, critical thinkers when making decisions.

These ideas demonstrate that financial literacy workshops can enhance decision-making proficiency by employing easily understandable strategies (Cole & Fernando, 2008; Fatoki, 2014). However, Obago (2019) criticizes the theory by suggesting that as individuals gain more information through financial education, their reliance on intuition may decrease over time, and intuition is only employed when relevant decision-making information is insufficient. The Dual Process theory was chosen for this research because it suggests that individuals with high reasoning skills seek out relevant facts and are more likely to make informed decisions when presented with persuasive information. To ensure teachers can make informed financial investment decisions, they need to be convinced with factual information, which can be obtained through financial literacy.

#### **2.2.4 Goal Setting Theory**

Locke (1986) introduced this theory, which stems from the concept that well-defined objectives and goals drive outcomes. The effectiveness of task execution is largely influenced by individual aspirations (Locke & Latham, 1990). According to this theory, clear and compelling goals, coupled with constructive feedback, consistently lead to successful job performance. In contrast, ambiguous and simplistic goals tend to yield moderate results, while well-defined goals result in high performance. Individuals must exhibit complete dedication to achieving

their goals, anticipate feedback, and demonstrate their ability to perform the tasks. This highlights the idea that enhancing the efficiency of financial literacy programs is motivated by concerns and expectations of future financial well-being (Locke, 1986).

Grounded in the financial literacy theory is the principle that financial knowledge should inevitably be tied to financial behavior, as it fundamentally impacts an individual's overall welfare. A noteworthy manifestation of this principle is the Financial Practices Index (FPI), developed by Hilgert et al. (2003). This index hones in on advantageous behaviors pertaining to an individual's management of cash flow, credit, investments, and savings. When contrasting the outcomes of the FPI with results from a financial literacy quiz, a clear positive correlation emerged between effective financial practices and financial literacy. This relationship emphasizes the link between an individual's financial understanding and their financial routines. Analogously, the goal setting theory advocates for and inspires individuals to boost their financial accumulation. It postulates that households routinely track their advancements towards their financial goals and recalibrate them if they seem unreachable. However, this theory is not without its critics. For instance, Chemjor (2015) disputes the theory, arguing that more daunting financial goals may prompt individuals to partake in risky financial behaviors as they endeavor to achieve these objectives within the designated timeframe.

Despite the criticism, the goal setting theory remains pertinent to this study as it acknowledges that an individual's financial investment decisions are influenced by their objectives. These goals, in turn, are sculpted by their degree of financial literacy, encompassing components such as savings management, debt handling, risk diversification, and budgetary proficiency.

Therefore, understanding these theories is crucial in shaping our comprehension of financial literacy and investment decisions. It reinforces the need for robust financial literacy to facilitate sound financial behaviors and decisions. It also highlights the importance of setting achievable financial goals and being mindful of the potential risks associated with overambitious

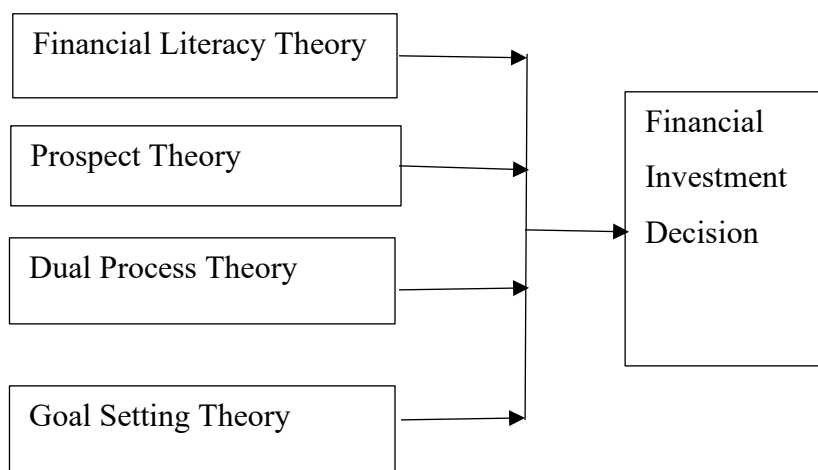
objectives. Ultimately, a better understanding of these concepts can lead to improved financial outcomes and a more financially secure future for individuals.

### 2.2.5 Theoretical Framework

The framework consists of the theories that inform the study, as indicated in Figure 2.1

**Figure 2.1**

*Theoretical Framework*



## 2.3 Empirical Literature Review

In this section of the chapter, the study critically analyzes the related literature and identifies the gap guided by the study variables.

### 2.3.1 Debt Management Literacy and Financial Investment Decision

Debt management literacy refers to the knowledge and understanding of how to effectively manage and handle debt. It involves having a clear understanding of different types of debts, interest rates, repayment strategies, budgeting, and financial planning to avoid excessive debt and minimize its negative impact on one's financial well-being (Hamid & Loke, 2021).

Extensive research lends credence to the hypothesis that people with lower levels of financial literacy are more likely to struggle with difficulties pertaining to debt, exhibit a lesser willingness to save money, have a greater tendency to participate in actions that result in higher

mortgage costs, and, in general, fail to prepare for their retirement. Because of a lack of financial literacy, consumers may find it difficult to completely appreciate their rights, duties, and the related financial risks, which may cause them to forego the use of important financial goods and services. In addition, consumers may avoid taking use of necessary financial products and services.

A widespread problem, excessive debt endangers the economic security of a great number of people and families and is a major contributor to the growing national debt crisis. A lack of financial literacy may have an impact on debt behavior and lead to an increase in the amount of debts carried by an individual. The amount of financial literacy of a person and their capacity to make well-informed choices about the reduction of their debts are critical factors in effective debt management. According to Anderson et al. (2012), persons with high amounts of debt are more likely to engage in fraudulent financial behavior, including investment fraud, credit card delinquency, and bankruptcy. These behaviors are all indicators of financial illiteracy.

Several studies have explored the relationship between financial literacy and the effective management of personal debt, aiming to better understand this connection. The ramifications of an individual's management of their personal finances and debt transcend beyond the boundaries of their personal lives and into the realms of their professional lives as well. The consequences of personal debt may also have an effect on mental health, and this can result in feelings of worry and sadness. According to Thakor and Loewenstein (2020), this kind of mental stress might reduce an individual's efficiency in the job.

In addition, polls have shown that a sizeable percentage of the general populace has a poor comprehension of fundamental financial concepts such as stocks, bonds, and mutual funds. According to research conducted by Lusardi and Tufano (2015), many borrowers in the UK have a limited understanding of mortgages and interest rates. According to Boisclair et al. (2017), older adults, like younger people, struggle with simple calculations relating to interest

rates, inflation, and risk diversification. This lack of comprehension affects both younger and older individuals.

The effects of having a lack of knowledge about finances are not restricted to just having high amounts of debt. It has the potential to affect the choices about one's financial situation made by people of various ages and economic levels. For instance, young people in Britain are borrowing more money, leading to financial troubles that arise from a lack of financial literacy. This is because young adults in Britain are borrowing more money. This excessive borrowing often results in a financial catastrophe (Mullainathan & Shafir, 2013). Examples of this include the pressure that society places on individuals to own particular luxury things, such as branded apparel and cellphones.

Individuals with limited financial literacy often face greater difficulties managing debt. They are more prone to incurring high transaction costs, paying excessive fees, relying on expensive borrowing options, and struggling to assess their financial obligations effectively (Lusardi & Tufano, 2015). This makes it more likely that these individuals may confront problems with their debt. According to Fernandes et al. (2014), consumers may keep access to loans even in the face of tight credit markets if they maintain good financial habits such as paying their bills on time and avoiding excessive debts via the cultivation of positive financial habits through financial literacy.

Obago's study (2019) demonstrated the critical role that financial literacy plays in personal finance management. The study revealed that numerous employed individuals grapple with financial strain due to poor financial decisions. These can manifest in credit card mismanagement, overspending, inadequate income, high debt levels, and ineffective cash management. As a result, the individuals face difficulties in meeting their daily needs, which ultimately impacts their work performance and productivity negatively.

In response to these challenges arising from financial illiteracy, numerous organizations across the United States have instituted financial education programs at workplaces. These initiatives aim to arm employees with the vital skills necessary for managing personal finances. However, this study's limitations must be noted - it primarily relied on a literature review and did not incorporate empirical data (Obago, 2019).

The consequences of limited financial knowledge can be dire, as underscored by Mottola's (2013) research, which revealed a propensity among such individuals to engage in high-cost credit card practices. Moreover, Allgood and Walstad (2013) discovered a significant impact of both self-assessed and objective literacy on credit card behavior throughout a person's life.

Further, Gerardi et al. (2013) conducted a study that demonstrated a strong link between individuals' numerical abilities and their mortgage payment patterns. The results revealed that the numerical ability, as determined by the administrative records of subprime mortgage holders, was a significant predictor of mortgage defaults.

The role of financial literacy in debt management was explored in a Kenyan study by Nyamute and Maina (2011). Surveying 192 employees with a structured questionnaire, they found that both financially literate and non-financially literate groups exhibited significant issues in managing debt. Interestingly, individuals with lower financial literacy levels appeared to be more prompt in their bill payments. The growing concern over rising consumer debt levels and increasing individual responsibility for retirement planning highlight the urgency of improving financial competence in households. This competence is crucial for making sound long-term consumption decisions and managing investments effectively (Brown & Graf, 2012).

Bahovec et al. (2015) investigated the association between debt management behavior and financial literacy levels in Croatia and found that people's approaches to debt management differed significantly depending on their financial literacy. According to the study, people with moderate to high financial literacy showed better debt management techniques, whereas those

with lower financial literacy were more likely to be indebted. Interestingly, the research indicated no statistically significant connection between household disposable income per member and financial literacy levels, suggesting that financial knowledge, rather than income, plays a more crucial role in influencing financial behavior. Additionally, gender emerged as a significant factor, with notable differences in financial literacy levels between men and women. These findings reinforce the importance of financial literacy as a key determinant in shaping consumer behavior related to debt management and overall financial decision-making.

The importance of financial literacy in managing personal finances is continuously emphasized by the larger body of research, which covers topics like investing techniques, debt repayment, and credit card use (Lusardi & Tufano, 2015). Higher financial literacy enables people to make wiser decisions, steer clear of expensive financial blunders, and attain greater financial stability. Enhancing financial literacy not only helps individuals manage debt more effectively but also promotes better financial outcomes for households, contributing to overall well-being and financial resilience. In order to close the literacy gap and enable people to make wise financial decisions in an increasingly complicated economic environment, these findings highlight the necessity of focused financial education initiatives.

### **2.2.2 Saving Literacy on Financial Investment Decision**

When it comes to managing one's own finances, saving is essential. Reasons why people should save money include the enhancement of long-term consumption patterns, provision for retirement and old age, financing of anticipated large expenditures like the purchase of a home or the education of one's children, and protection against income loss.

Lynch (2006) proposed a theory on spending that suggests individuals make choices about their expenditure throughout their lives, constrained by the resources available to them. According to this theory, people tend to follow a pattern of savings that forms a curve over their lifetime. During periods of high income, individuals tend to increase their savings, while during periods

of low income, such as before employment or during retirement, they rely on their savings to meet their needs. Cultivating a savings mindset is advantageous not only for individuals but also for the overall economy.

It is a frequently held view that an individual's degree of financial literacy has a direct and positive impact on their propensity to save money. This is because having greater financial literacy translates into being more cognizant of one's financial situation. People can therefore make better financial decisions based on factual knowledge and manage their future finances more effectively. People in industrialized countries make judgments about retirement planning and savings based in large part on their level of financial literacy, according to an analysis of their behaviors. It has been established in a great number of earlier research that people who actively prepare for their retirement are more likely to have a greater amount of funds set up for when they reach retirement age. An example of this can be seen in the research conducted by Lusardi (1999). According to a 1992 HRS survey question, those who had given serious attention to retirement had twice as much money as those who hadn't. Lusardi discovered that this difference was due to the degree to which people had contemplated retirement. The 2004 HRS survey also yielded similar results, supporting Lusardi's findings (as cited by Lusardi & Beeler, 2007).

Bernheim et al. (2001) as well as Bernheim and Garrett (2003) have demonstrated that individuals who received early education in monetary matters during high school, college, or through their jobs tend to save a greater amount of money. In a similar vein, Koh et al. (2020) have put forth the claim that individuals with limited financial knowledge are unlikely to plan for retirement, resulting in lower accumulated wealth during their peak earning years. Koh et al. (2020) also reveal that those with lower financial literacy are less inclined to save for retirement. These findings are further supported by Lusardi and Mitchell (2017), who delve into the decision-making process of regular consumers and observe that individuals with greater

financial expertise are more likely to be prepared for retirement and enjoy a higher income during their retirement years.

A lack of financial literacy can greatly hinder an individual's ability to build sufficient savings, which is essential for ensuring financial security during retirement (Delafrooz & Lily, 2011). Research by Lusardi and Mitchell (2017) highlights that inadequate preparation for retirement is a prevalent concern in the United States, often linked to low levels of financial literacy. Their findings indicate that individuals who struggle with understanding and managing their finances are more likely to face challenges in saving consistently and making informed investment decisions. Additionally, poor retirement readiness is frequently associated with adverse life events, such as divorce or significant health challenges, which can further exacerbate financial instability. These issues underscore the critical importance of financial education in equipping individuals with the knowledge and skills needed to navigate the complexities of long-term financial planning and mitigate the risks of poor financial outcomes. By fostering greater financial literacy, individuals can better secure their financial futures and maintain stability during retirement.

In a Kenyan study by Wangmo (2018) the researcher investigated the saving habits of financially literate and illiterate employees, defining the former group as those who had undergone some form of financial training such as bankers, accountants, auditors, etc. The study used a structured questionnaire to collect data from 192 employees. Results showed a general culture of savings among respondents. However, financially educated individuals were more proactive in identifying saving opportunities and earmarking money for future needs (Wangmo, 2018).

Effective retirement planning and financial literacy were found to be strongly positively correlated in a Russian study by Klapper and Panos (2011). Similar results, underscoring the universal significance of financial literacy in retirement planning, have been noted in a number

of other emerging nations. This pattern supports the notion that increased financial literacy could potentially promote sound retirement saving habits. A study conducted in India by Murithi et al. (2012) revealed that a majority (76%) of the respondents saved money. However, most saved only a small fraction of their income. The study indicated that savings were primarily held in banks, demonstrating a preference for traditional, less risky financial avenues. In research by Bhushan (2014) it was found that individuals with high financial literacy levels demonstrated greater awareness of various financial products. As a result, they were more likely to save and engage in more complex financial activities. The study suggested that governments should invest more in promoting financial education as a strategy to enhance savings. Mahdzan and Tabiani (2013) conducted research in Malaysia and discovered a significant link between financial literacy and personal savings. Their findings showed that both foundational and advanced financial knowledge played a crucial role in encouraging higher savings, emphasizing the importance of financial education in promoting better saving habits.

In Thailand, Suwanaphan (2013) carried out research on how financial literacy affects saving habits. The study found that low financial literacy often resulted in overspending and poor saving habits. The researcher, therefore, suggested that governments should prioritize financial education. A global study by Standard and Poor (2014) showed that while 57% of adults save money, only 27% use formal financial institutions. The study pointed to the need for improving financial literacy to ensure a better understanding of the importance of saving.

In a survey of 30 countries by the OECD (2016) it was found that understanding of interest compounding and the ability to compute simple interest on savings was low. This suggests a gap in financial literacy that needs to be addressed.

A unique study by Seshan and Yang (2018) on Indian migrant workers in Qatar showed how financial literacy training impacted their financial decisions and savings. The study found that after receiving financial literacy training, nearly half of the participants began involving their

spouses in financial decisions. Research by Bhabha et al. (2014) on Pakistani working women found that although they understood basic financial concepts, they lacked knowledge about more complex financial matters, affecting their savings and investment behaviors.

Higher education was positively correlated with higher savings among Postal Corporation of Kenya employees in Kenya, according to Hinga (2014). The study also showed that savings and income levels were positively correlated, with higher earners often saving more. These results demonstrate how financial literacy plays a crucial role in promoting financial stability by having a substantial impact on saving habits and retirement planning. Governments, organizations, and educators need to focus on improving financial literacy to ensure more individuals can manage their finances effectively and prepare for the future.

Agunga (2016) conducted a study on the relationship between financial literacy and retirement preparedness among permanent and pensionable workers in Nairobi. The research aimed to explore how understanding financial instruments affects employees' ability to financially prepare for retirement. The study employed a descriptive design and included 4,619 employees from state agencies with at least 5 years of experience. The results revealed that a strong grasp of personal finance positively influences an individual's ability to effectively plan for retirement. Additionally, the findings highlighted how demographic and economic factors play a role in shaping the connection between financial preparedness for retirement and financial knowledge. In contrast, the present research will concentrate not on preparation for retirement but rather on the link between financial literacy and the decision-making process about investments.

In order to determine the variables influencing the saving and investing habits of Wells Fargo Kenya Limited workers in Nairobi, Nyambura (2019) carried out a descriptive survey. The sample included 572 employees, comprising top management, middle managers, and other staff members. The study collected data through questionnaires and employed correlation analysis

using Excel and SPSS version 24. The results showed that factors such as retirement planning, development, preventive measures, and bequests had a considerable impact on workers' levels of saving and investing. Employees' propensity to save and invest was also significantly influenced by a number of micro variables. These included employees' financial literacy, salary, the type of work-related hazards, and the size of their families. However, religious affiliation was not a significant factor. This research was conducted on a single company and its findings should not be extrapolated to the whole United States.

### **2.2.3 Budgetary Literacy on Financial Investment Decision**

Understanding an individual's financial responsibility can often be measured by their ability to budget effectively (Loke, 2017). An individual who consistently maintains a budget surplus showcases their capacity to make strategic financial decisions. They can utilize this surplus for different purposes, such as reducing existing debt or enhancing their investment portfolio (Khan, 2012). A paper by Raghunandan et al. (2012) elucidated the behavioral aspects of budgeting, emphasizing the importance of setting strategic goals and developing accurate financial forecasts. Comparing these forecasts with actual outcomes becomes a valuable tool for performance evaluation and identification of areas needing corrective action.

Research on personal financial literacy has been conducted in various settings, offering valuable insights into its determinants and prevalence. A study by Liaqat et al. (2021) at Padjadjaran University in Indonesia investigated the financial literacy levels of students and the factors influencing their financial knowledge. The study found that many students exhibited low levels of financial literacy, particularly in critical areas such as investment, credit management, and understanding insurance. Several factors were identified as contributing to their financial literacy levels, including the students' academic background, field of study, personal income, and exposure to financial concepts through parental influence. Additionally, parental income and the students' possession of insurance policies were also found to play significant roles in

shaping their financial awareness. These findings underscore the importance of targeted financial education programs tailored to address gaps in knowledge, particularly among young adults, to equip them with the skills necessary for effective financial management and decision-making (Liaqat et al., 2021).

Research on financial literacy in Sri Lanka has provided valuable insights into the factors influencing individuals' financial knowledge. Heenkenda (2014) conducted an extensive analysis of functional financial literacy using quantitative data collected from both urban and rural areas, as well as the state sector. The study revealed that socio-economic and demographic characteristics significantly affected financial literacy levels, with variations observed across different groups. Education emerged as a key determinant, as individuals with higher levels of formal education tended to demonstrate greater financial knowledge. Other influencing factors included income, gender, and age, with disparities in literacy levels being particularly evident among these categories. The majority of respondents had just intermediate financial literacy, according to the study, which emphasizes the need for focused efforts to raise financial literacy. These results highlight the crucial influence of demographic and socioeconomic variables on financial literacy and imply that customized approaches are necessary to meet the particular requirements of various groups (Heenkenda, 2014).

In Bangladesh, the Institute of Microfinance conducted a broad-based survey covering approximately 9000 households. The results suggested a severe lack of financial literacy, especially in rural areas, indicating a critical need for increased financial education efforts in the country. India's financial literacy situation is also worth noting. A VISA study in 2012 ranked India 23rd out of 28 surveyed countries in terms of financial literacy. Subsequent research by Bharucha (2019) indicated that various socio-demographic factors influenced the financial literacy levels among young urban Indian workers. Factors unique to the Indian

context, like the joint-family structure and the consultative decision-making process, were found to significantly affect financial literacy.

These findings highlight the importance of understanding the socio-economic and cultural contexts when studying financial literacy. Efforts to improve financial literacy must consider these factors, ensuring that education and support systems are designed to meet the unique needs of each population segment.

#### **2.2.4 Risk Diversification on Financial Investment Decision**

Spreading money over a number of disparate assets or categories of assets is called "risk diversification," an investing technique designed to mitigate loss. The goal of diversification is to reduce the portfolio's total exposure to risk by spreading it among a number of assets that are not perfectly connected with one another. The main principle of risk diversification is that different assets or asset classes have different risk-return characteristics. Some investments may be more volatile or have higher potential returns, while others may be more stable but offer lower returns. Combining multiple investments into a portfolio can help minimize overall risk, as the strong performance of one investment can compensate for the weaker performance of another.

Investment decisions are often intrinsically connected to financial literacy, a concept that has been thoroughly studied and proven in various contexts, including Pakistan. Awais et al. (2016) have proposed that the intensity of risk associated with investment decisions can fluctuate, depending heavily on the approach adopted by the investor. They suggested that investors willing to embrace riskier ventures often exhibit higher risk tolerance, which is developed through past experiences and financial knowledge. In other words, the more experienced an investor, the better equipped they are to handle potential risk, stemming from their increased financial literacy.

Janor et al. (2016) conducted a comparative study in Malaysia and the United Kingdom to examine how financial literacy, risk tolerance, and investment preferences impact corporate investment decisions. The study revealed significant differences between the two countries, with financial literacy levels in Malaysia being notably lower than those in the United Kingdom. This disparity was found to influence overall investment behaviors, as individuals in Malaysia were less likely to engage in sophisticated investment strategies due to limited financial knowledge. Higher financial literacy in the UK, on the other hand, was associated with more diversified and well-informed investment choices. These results highlight the importance of financial education in influencing investment practices, especially in nations where gaps in financial literacy continue to exist. By addressing these gaps through targeted educational initiatives, nations can empower individuals to make more effective financial and investment decisions, ultimately contributing to stronger economic outcomes (Janor et al., 2016).

Research conducted in Kenya has highlighted the critical role of financial literacy in shaping investment decisions across various sectors. Amisi (2012) evaluated the financial literacy levels of pension fund managers and their impact on investment decision-making. The study revealed that the financial literacy levels of fund managers were below what is necessary for optimal decision-making. This deficiency posed challenges in performing essential tasks, such as regular monitoring and evaluation of fund performance. These findings emphasize the importance of equipping fund managers with advanced financial knowledge to enhance their decision-making capabilities and ensure better outcomes for the beneficiaries of pension funds. Olima (2013) conducted a study in Kenya that examined the impact of financial literacy on the saving habits and social security planning of Kenya Revenue Authority employees. Employing a combination of quantitative and qualitative data analysis methods, including multiple regression analysis, the research demonstrated a strong correlation between financial literacy and effective personal financial management. While financial literacy positively influenced

areas such as savings and overall financial decision-making, the study identified significant gaps in critical areas like retirement planning, estate planning, insurance planning, and tax planning. These findings suggest that even among employed individuals with steady incomes, targeted financial education is necessary to address specific weaknesses and improve overall financial preparedness.

In the real estate sector, Musindi (2014) explored the financial literacy of investors in Nairobi County and its impact on their investment decisions. The findings indicated that financial literacy levels among real estate investors were insufficient, which significantly affected their ability to make sound investment decisions. This lack of financial knowledge often led to suboptimal investment choices and limited risk management capabilities. These results underscore the importance of tailored financial education programs for real estate investors to enhance their financial decision-making and maximize returns.

Together, these studies demonstrate the significant influence of financial literacy on investment behaviors and outcomes in Kenya. Whether examining pension fund managers, employees in the public sector, or real estate investors, financial literacy consistently emerges as a critical determinant of effective decision-making. Poor financial literacy can reduce risk tolerance, limit diversification, and impair long-term financial planning. To address these challenges, concerted efforts are needed to improve financial literacy across different sectors. Initiatives aimed at providing targeted financial education and skills training can empower individuals and institutions to make informed investment decisions, contributing to a more financially secure and resilient society.

#### **2.4 Summary of Literature and gaps**

The preceding chapter focused on previous research related to financial literacy, financial investment, and the theoretical frameworks that underpin these areas. The applicability of several theories in elucidating the connection between financial literacy and investment

decision-making was assessed, including Prospect Theory, Dual Process Theory, Financial Literacy Theory, and Goal Setting Theory. These theories provide valuable insights into the cognitive, behavioral, and motivational factors influencing financial decisions. Teachers' investment choices are often shaped by their ability to make well-informed and prudent decisions. However, empirical evidence indicates that many employees, including teachers, face challenges such as excessive borrowing, insufficient savings, poor mortgage decisions, inadequate retirement preparation, and limited participation in financial markets. These findings highlight significant gaps in financial knowledge and the need for targeted interventions to improve financial literacy.

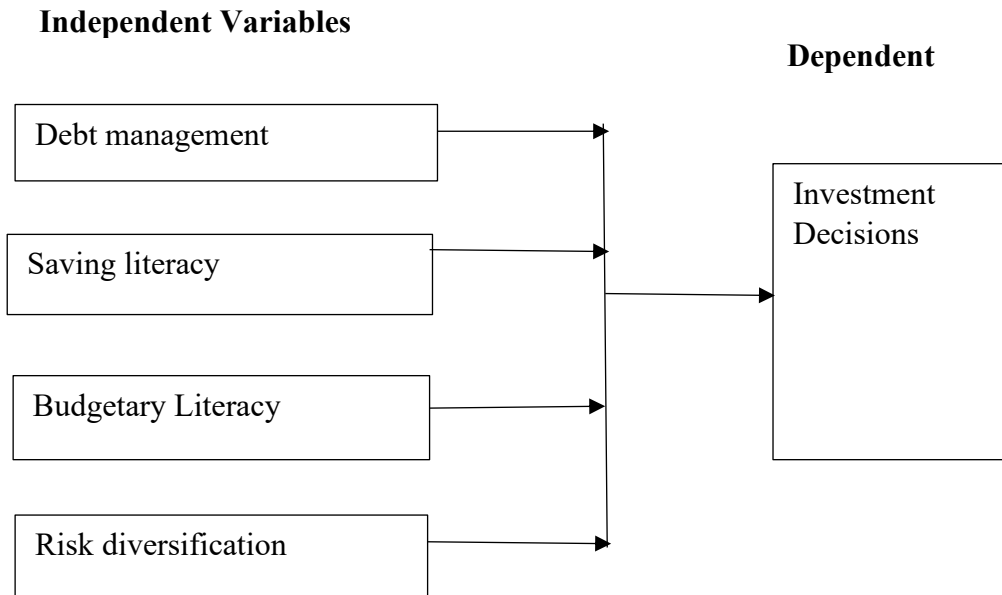
This study aims to explore these gaps by assessing the financial literacy of teachers, with a specific focus on its influence on their investment decision-making. The research seeks to examine the role of key components of financial literacy—debt management, saving literacy, budgetary literacy, and risk diversification—in enhancing teachers' ability to make sound financial investments. By examining these factors, the study hopes to advance knowledge of how educators' investment practices are influenced by their level of financial literacy. In addition to illuminating the financial difficulties teachers encounter, the results will offer valuable perspectives on tactics that can enable them to make more informed financial choices. In the end, the study aims to close the information gap and offer workable answers to support long-term financial security and financial well-being in the teaching profession.

## **2.5 Conceptual Framework**

The conceptual framework illustrates how the independent variables, including debt management, saving literacy, budgetary literacy, and risk diversification, are related to the dependent variable of investment decision in this study.

**Figure 2.2**

*Conceptual Framework*



**2.5.1 Debt management**

The goal of debt management is to improve one's financial status via more efficient administration and repayment of loans. Debt consolidation is drawing out a strategy to eliminate debt, keeping track of expenses, and making wise choices to minimize interest and other costs. According to Kurbonov (2021), debt management is a process that requires discipline, patience, and consistent effort. By following a well-structured plan and making necessary lifestyle adjustments, one can work towards reducing debts and achieving financial freedom which will allow one to make a sound investment decision. When one is overburden by the debts, one cannot be able to make any financial investment.

**2.5.2 Saving literacy**

This refers to the practice of setting aside a portion of one's income or resources for future use or investment instead of spending it immediately (Brigham, 2016). Establishing specific financial goals is an effective way to motivate saving practices. Whether it is saving for

investment or planning for retirement, having clear objectives enables one to focus one's saving efforts and track the progress.

Saving literacy encourages individuals to think long-term and understand the power of compounding returns. By starting to save and invest early, individuals can benefit from the compounding effect over time, allowing their investments to grow significantly.

### **2.5.3 Budgetary Literacy**

Engels et al. (2020) put forth the idea that literacy in budgeting - or budgetary literacy - is a critical component of effective personal finance management. This proficiency extends to an understanding of key concepts such as the creation and implementation of budgets, savings plans, investment strategies, and the management of debts. This increased awareness of financial management helps people create and accomplish their financial goals in addition to empowering them to make informed financial decisions.

In alignment with this notion, it can be suggested that a robust comprehension of budgeting and financial planning principles, in addition to a basic grounding in financial concepts, enhances an individual's capacity to make sound investment choices. By delving into budgetary literacy, individuals empower themselves with the ability to scrutinize different investment options, thereby gauging their respective risks and returns (Killins, 2017). A deep-rooted understanding of budgetary literacy facilitates an individual's grasp on various forms of investments - from stocks and bonds to mutual funds and real estate. Through this informed lens, individuals can discern between varying investment options, thereby selecting those that best suit their financial goals, risk tolerance, and investment timeline. In essence, by leveraging their budgetary literacy, individuals can navigate the complex landscape of personal finance with more confidence and clarity.

Furthermore, budgetary literacy aids in financial stability and helps individuals manage their financial resources more effectively. An individual who is adept at budgeting can maintain a

balance between income and expenses, ensuring that they don't spend more than they earn. This is a fundamental aspect of achieving and maintaining financial stability.

Also, budgetary literacy helps individuals in planning for the future. For instance, understanding how to save and invest for retirement is a critical aspect of budgetary literacy. It includes understanding the importance of starting to save early, the power of compounding, and the role of various retirement savings vehicles. Moreover, budgetary literacy helps individuals manage debts more effectively. It involves understanding how interest on debt works, how to manage credit card debts, and how to make a plan to pay off debts. It also involves understanding the implications of not managing debt effectively, such as the impact on credit score and the potential for bankruptcy.

Lastly, budgetary literacy aids in the management of financial risks. Individuals with high budgetary literacy can understand the various types of financial risks, such as investment risk, interest rate risk, and inflation risk, and they can devise strategies to manage these risks. In conclusion, budgetary literacy is not just about understanding how to budget. It is about understanding the larger picture of personal finance management, which includes saving, investing, debt management, planning for the future, and managing financial risks. This comprehensive understanding can help individuals make informed financial decisions and achieve financial stability.

#### **2.5.4 Risk diversification**

Risk diversification, often referred to as portfolio diversification, is an investment strategy aimed at minimizing risk and reducing the volatility of financial investments. This approach involves spreading investments across different markets, industries, or asset types to lessen the overall portfolio's dependence on the performance of a single investment (Siegel, 2021). Diversifying one's portfolio may help cushion losses from the collapse of a single market or

industry. The losses from a badly performing investment may be reduced or even eliminated if the portfolio as a whole performs well.

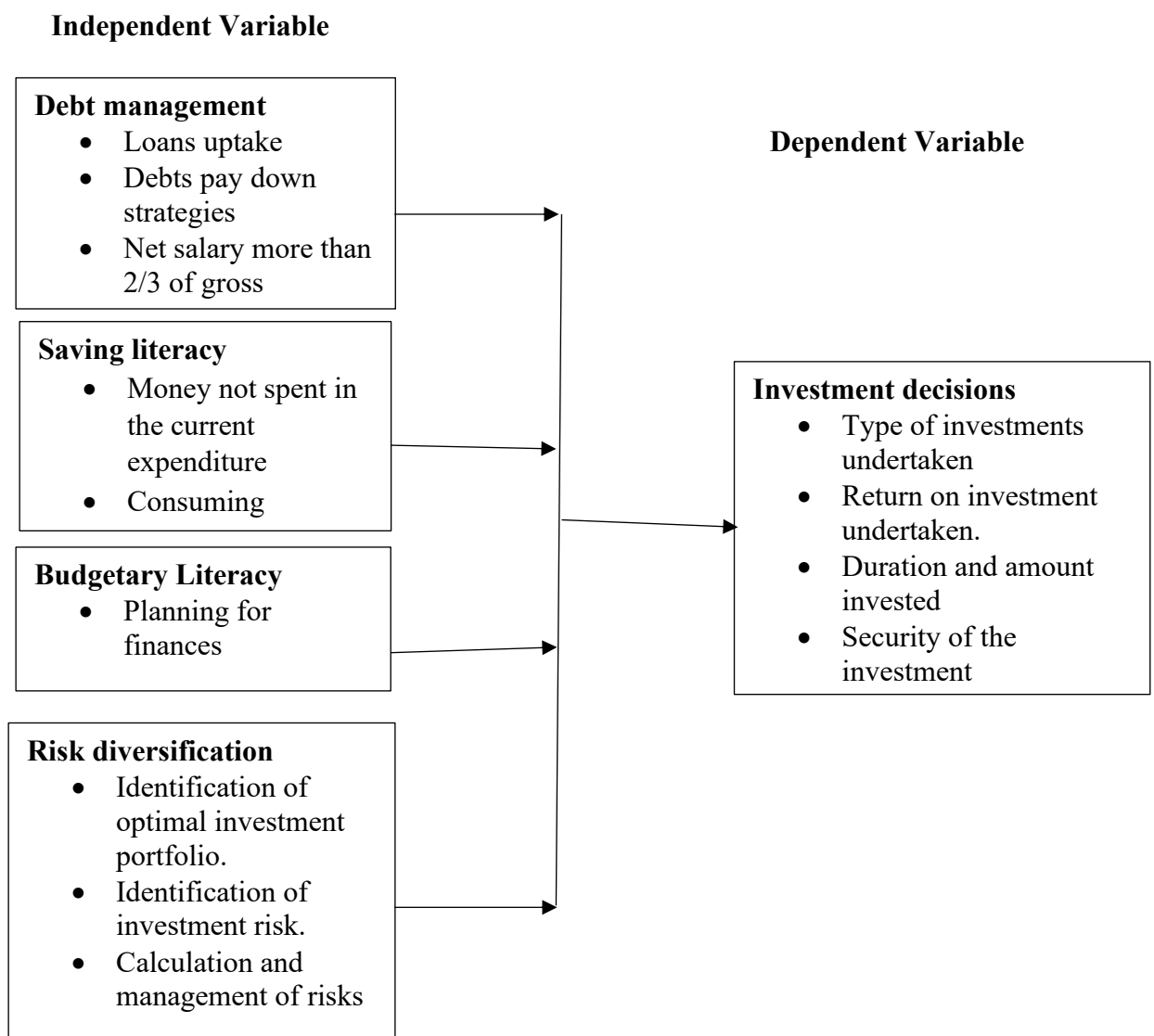
Diversification allows investors to access different investment opportunities. By spreading investments across various asset classes or regions, investors can participate in the growth potential of different sectors or economies. This can increase the likelihood of capturing positive returns from investments in different areas (Ibikunle & Steffen, 2017).

## 2.6 Operational Framework

The framework displays the study variables and the indicators of each variable.

**Figure 2.3**

*Operational Framework*



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter outlines the methodological framework and procedures utilized in the study. It includes details on the research design, the target population, the sampling strategy and sample size determination, data collection methods, pilot testing of research instruments, approaches to ensuring reliability and validity, data analysis techniques, and the ethical issues observed throughout the research process.

#### **3.2 Research Design**

The research design was akin to a blueprint or roadmap for the study, detailing the steps, methodologies, and techniques utilized to gather and scrutinize data to evaluate a research hypothesis. The choice of design was contingent upon the nature of the research question that is central to the study (Creswell, 2014). This particular study utilized a descriptive research design. The selection of this research design was based on its ability to allow for a comprehensive elucidation of the phenomena under study, thereby ensuring minimal bias during data collection and reducing the likelihood of errors in data interpretation (Sileyew, 2019). Descriptive research design offers flexibility in terms of data collection methods and techniques. Researchers can use various approaches such as surveys, observations, interviews, or existing data to gather information. This flexibility allows researchers to adapt the design to suit their research objectives and the specific context of the study. Indeed, the versatility of descriptive research design was reflected in its ability to yield both quantitative and qualitative data, contingent on the research methodologies applied. This dual-method approach provides a more nuanced comprehension of the research subject by amalgamating numerical data with in-depth qualitative insights. The fusion of these two types of data allows for a robust understanding of the patterns and trends in quantitative data, as well as the underlying reasons

and contexts in qualitative data. This enhances the overall validity of the research, making it an excellent choice for comprehensive investigations. It enabled researchers to explore the topic from different perspectives and capture a more complete picture (Foroudi et al., 2021).

### **3.3 Target Population**

In research, it describes a specific subset of individuals or entities that are the main focus of a study. The aim was to learn more about these subjects and, ideally, apply the findings to a broader context or demographic (Hancock et al., 2021).

For the purpose of this study, the primary focus was to be on educators within the public secondary school system in Meru County. According to data from the Teacher Service Commission (TSC) for Meru County, there are 1,825 teachers currently employed across 192 public secondary schools, as of April 2023. This group was formed on the basis of the study's target population.

### **3.4 Sampling Technique and Sample Size**

Sampling is an integral part of any research as it enabled researchers to gain insights about a larger population by studying a subset of that population (Mweshi & Sakyi, 2020). The sampling strategy entails identifying the sampling unit, constructing a sampling frame, deciding on a sampling procedure, and determining the sample size. The sampling frame served as a comprehensive list containing all potential research subjects within the target population (Kothari, 2017).

This study utilized purposive sampling to select public secondary schools based on specific criteria, enabling the collection of targeted and detailed data. To address the variability in teacher numbers across schools, random sampling was applied to choose individual respondents. This approach ensured that every teacher within the selected schools had an equal probability of inclusion, thereby producing a sample that was representative of the broader population.

The use of random sampling contributed to the representativeness of the data and allowed the findings to be generalized to the larger teacher population. This enhanced the external validity of the study, enabling accurate conclusions and reliable inferences about the overall population. Slovin's Formula was applied in computing the sample (Kumar, 2018). This formula was particularly suited to scenarios involving large populations, providing a systematic and precise method for calculating an adequate sample size to ensure the reliability and validity of the research findings.

$$n = \frac{N}{1 + N(e)^2}$$

Where: n= Sample size,

N= Population size (1825)

e= Level of Precision At 95% degree of certainty and P=5

$$n = \frac{1825}{1 + 1825(0.05)^2}$$

n= 328 participants

A total of 328 participants were chosen as a representative sample from various sub counties in Meru County. The selection process ensured that the number of respondents from each sub county was proportional to its population. Additionally, within each chosen school, a random sample was taken, with the number of participants determined based on the school's size relative to the overall population.

**Table 3.1***Sampling Frame*

<b>Sub county</b>	<b>No of schools</b>	<b>No of teachers</b>	<b>Sample size</b>
Buuri	20	190	34
Igembe North	17	162	29
Igembe South	18	171	31
Igembe Central	23	219	39
Imenti South	31	294	53
Imenti Central	19	180	32
Imenti North	29	312	56
Tigania East	18	156	28
Tigania West	17	141	26
<b>Total</b>	<b>192</b>	<b>1825</b>	<b>328</b>

**3.5 Research Instruments**

A systematic questionnaire with both closed-ended and open-ended questions was used to collect data for the study. Closed-ended questions were especially beneficial because of their organized format, which made analysis easier, and because they were simple to administer, with predefined answer possibilities increasing efficiency. Four independent variables and one dependent variable—all of which were precisely defined and operationalized to support the goals of the study—were intended to be the subjects of the questionnaire. Responses to the Likert-scale items in the questionnaire were measured on a five-point ordinal scale, ranging from "1" (Strongly Disagree) to "5" (Strongly Agree). The analysis of these responses utilized a five-point equidistance scale, as outlined by (Abutabenjeh & Jaradat, 2018).

The questionnaire was divided into three distinct sections: A, B, and C. Section A focused on collecting demographic details of the respondents. Section B assessed aspects of financial literacy, including debt management, saving literacy, budgetary literacy, and risk diversification. In Section C, viewpoints on financial investment choices were examined, including debt management, investments, savings, and money management. This structured format ensured comprehensive data collection across all relevant areas of the study.

### **3.6 Pre-Testing the Instrument**

To identify potential flaws in the design and instruments, as well as to explore other data options for sample selection, a pre-testing phase was conducted. This pilot study involved randomly selecting 33 teachers from Tharaka Nithi County, which made up to 10% of the total sample size. Because the site of the real research was different from that of the pilot study, it was essential to highlight that the participants who volunteered to take part in the test run were not be asked to take part in the study that was to be ultimately conducted.

#### **3.6.1 Reliability**

Reliability refers to the ability of a research instrument to produce consistent, accurate, and stable results. For a tool to be considered reliable, it must demonstrate the ability to produce similar outcomes when measurements are repeated under the same conditions. The greater the consistency and stability of a tool, the higher its reliability. Therefore, reliability can be assessed by the extent to which repeated measurements, conducted under unchanged conditions, produce similar results (Kumar, 2014). In this study, Cronbach's alpha was used to evaluate reliability. This statistic measures internal consistency, reflecting how closely related items within a set are to each other. According to Taber (2018), an alpha score of 0.7 or higher is generally considered acceptable.

### **3.6.2 Validity**

In their study, Cooper and Schindler (2014) utilized a group of participants for their research. The concept of validity, which encompasses the significance, excellence, and precision of the methods employed to seek solutions to research inquiries (Kothari & Garg, 2014), was a focal point. To ensure validity, supervisors with expertise in the subject matter were involved, reviewing the questionnaires and aligning them with the study objectives.

### **3.7 Data Collection Procedure**

Approval for the research was granted by the National Council for Science and Technology and Innovation (NACOSTI) and the County Director of Education, following the approval of the research proposal by the University. Only after this approval, the data collection phase will commence. To gather primary data, the researcher herself administered questionnaires. This method was preferred because it promoted prompt responses from the participants. Questionnaires are suitable for this study as they have clearly defined research questions, are easy to process and analyze, and are cost-effective compared to other methods (Bryman & Bell, 2007). The surveys were collected within a reasonable timeframe. According to Creswell (2011), the only way to collect self-reported information about a person's ideas, attitudes, beliefs, and values was to have them fill out questionnaires that they controlled on their own.

### **3.8 Diagnostics Test**

To evaluate the regression analysis assumptions, a diagnostic test was conducted. A linearity test was conducted using Pearson's correlation coefficient to assess the linear relationship between the independent and dependent variables. Additionally, a normality test was performed to see whether the variables had a normal distribution. A p-value of less than 0.05 would imply that the data are not regularly distributed, whereas a p-value of more than 0.05 would suggest that the data are. To evaluate the correlations between the predictor variables, a multicollinearity test was also conducted.

### 3.9 Data Analysis

The analysis process began with a thorough review of the completed questionnaires, where only those that were accurately filled out were considered for further analysis. To gain a comprehensive understanding of the respondents' demographic characteristics, descriptive statistics such as frequency counts, percentages, means, and standard deviations were applied (Sullivan, 2011). This approach helped create a profile of the sample population and allowed for the identification of significant patterns within the data.

To examine the relationships between various aspects of financial literacy, such as debt management, saving literacy, budgetary literacy, and risk diversification, and their influence on financial investment decisions, Pearson's correlation coefficient was used. This statistical tool measures the strength and direction of the relationship between two variables (Taylor, 2016).

Regression analysis was also used to investigate the relationships between the independent and dependent variables in more detail. This approach assesses the model's overall fit and clarifies the ways in which each independent variable affects the dependent variable (Dormann et al., 2013). Version 28.0 of the Statistical Package for the Social Sciences (SPSS) was used to handle and analyze the data.

Before proceeding with the regression analysis, multicollinearity tests were conducted to ensure that the independent variables were not excessively correlated with each other, as high correlation could compromise the validity of the regression results (Dormann et al., 2013). Overall, the study aimed to assess the impact of financial literacy on financial investment decisions using both Pearson's correlation and multiple regression analysis as the main analytical techniques.

The regression model to be employed is as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where:

Y represented the dependent variable, which was the score for financial investment decisions calculated as an index based on different facets of financial investment decisions.

$\beta_0$  is the constant term.

$\beta_i$  denotes the coefficient of each independent variable.

$X_1$  represents debt management.

$X_2$  represents saving literacy.

$X_3$  represents budgetary literacy.

$X_4$  represents risk diversification.

e represents the error term.

### **3.10 Ethical Considerations**

In conducting this research, the investigator considered several ethical principles to maintain the integrity and trustworthiness of the study. Throughout the data collection process, utmost priority was to be given to ensuring the confidentiality and privacy of the participants (Flick, 2018). All collected data was to be securely stored, and only used for the purposes of this research. Moreover, the researcher administered the questionnaire in an unbiased manner, ensuring the respondents understand their rights and the purpose of the study. All questions were cleared and free of bias or leading language. Respondents had the freedom to choose whether to participate, and they can withdraw from the study at any time without any negative consequences (McAreavey, 2013).

To avoid academic misconduct such as plagiarism, the researcher diligently followed the American Psychological Association (APA) citation style throughout the study. All data, theories, or concepts borrowed from other authors will be correctly referenced and credited. This ethical practice not only helped to maintain academic integrity, but also provided transparency and allowed for the tracking of knowledge development within the field (Eret & Ok, 2014).

Prior to initiating the data collection process, the researcher sort permission from the relevant institutional bodies or authorities. This includes obtaining clearance from an ethics review board and permissions from the school administrations involved. Furthermore, informed consent was obtained from all participants before they take part in the research. This involved providing them with comprehensive information about the study, and having them sign a consent form to document their voluntary participation (Dikko, 2016).

In essence, these ethical considerations aimed to safeguard the rights, privacy, dignity, and well-being of the participants, while also ensuring the credibility, reliability, and overall ethical standard of the research.

## CHAPTER FOUR

### RESULTS, ANALYSIS, AND PRESENTATION

#### 4.1 Introduction

The results of the study were presented in this chapter. The study's main goal was to investigate the influence of financial literacy on investment decisions among Teachers Service Commission (TSC) teachers working in public secondary schools in Meru County, Kenya. The research was carried out in accordance with the study's goals, covering important topics like response rates, reliability and validity, demographic analysis, descriptive statistics, and regression analysis. The primary data was gathered through questionnaires given to teachers in Meru County.

#### 4.2 Reliability of the Study

The researcher employed Cronbach's Alpha, a well-known statistical method, to evaluate the internal consistency and reliability of the five-point Likert scale questions. The table below displays the Cronbach's Alpha values for all variables, ranging from 0.742 to 0.832. According to Reid (2006), strong evidence of construct reliability is generally indicated by a coefficient of 0.7 or above.

**Table 4.1**

*Cronbach's Alpha*

	<b>Variables</b>	<b><math>\alpha</math></b>	<b>No. of Items</b>	<b>Remarks</b>
<b>Valid</b>	Debt management literacy	0.742	7	Reliable
	Saving literacy	0.787	6	Reliable
	Budgeting literacy	0.832	6	Reliable
	Risk diversification literacy	0.774	5	Reliable
	Investment Decisions	0.816	6	Reliable

### 4.3 Response Rate

The data shows that out of the 328 questionnaires distributed to participants, 289 were completed and returned, resulting in an 88.1% response rate, which is considered sufficient to achieve the study's objectives. A 50% response rate is deemed acceptable, 60% is deemed good, and 70% or more is deemed great, according to Mugenda and Mugenda (2003). As shown in Table 4.2, descriptive statistics such as frequencies and percentages were used in the analysis.

**Table 4.2**

*Response Rate*

	<b>Questionnaire</b>	<b>f</b>	<b>Percent</b>
<b>Valid</b>	Returned	289	88.1
	Not returned	39	11.9
	<b>Total</b>	<b>328</b>	<b>100.0</b>

### 4.4 Demographic Analysis of the Respondent

A summary of the respondents' demographic data is given in this section, including information on their age group, gender, occupation, income level, educational background, professional qualifications, and financial information sources. Descriptive statistics, such as percentages and frequencies, are used to display the results.

#### 4.4.1 Respondent's Distribution by Gender

Table 4.3 shows results on gender

**Table 4.3**

*Gender*

		<b>Frequency</b>	<b>Percent</b>
<b>Valid</b>	Male	157	54.3
	Female	132	45.7
	<b>Total</b>	<b>289</b>	<b>100.0</b>

From the findings in Table 4.3, male participants comprised 157 (54.3%), and females comprised 132 (45.7%). Despite the fact that men made up a greater portion of the workforce, the results showed that TSC significantly empowered women. This meant that there were more male instructors working for the Teacher Service Commission in Meru County. The results were similar to those of Njehia (2019) which established a demographic age characteristic of 55.7% as male respondents while 44.3% were female.

#### 4.1.2 Age of the Respondents

Out of the 289 respondents, 27.4% were between the ages of 21 and 30 years. The largest proportion of respondents fell within the age groups of 31-40 and 40-50 years, which can be attributed to the significant recruitment efforts following the push for 100% transition from primary to secondary schools starting in 2008. Furthermore, 15.2% of the respondents were between the ages of 51 and 60, a demographic that had fewer job options during the time when hiring restrictions for teachers existed before free primary and secondary education was introduced. Table 4.4 demonstrates that people between the ages of 31 and 50 were generally more willing to make investment decisions, despite the risks involved, whilst people over 50 were typically more cautious and favored sticking with tried-and-true strategies (Musundi, 2014).

**Table 4.4**

*Age of the respondents*

	<b>Age (years)</b>	<b>Frequency</b>	<b>Percent</b>
<b>Valid</b>	21-30	79	27.4
	31 - 40	83	28.7
	41 – 50	83	28.7
	51 – 60	44	15.2
	<b>Total</b>	<b>289</b>	<b>100.0</b>

#### 4.4.3 Highest Level of Education Attained

The investigation into the educational qualifications of the respondents revealed that diploma qualifications were held by 24.2% of the participants. A significant 60.6% possessed bachelor's degrees, a reflection of varied university enrollments and the basic criteria needed for advancement to managerial roles previously, whereas 15.2% had achieved master's degrees or higher. It was noted from the data in Table 4.5 that there were no individuals with PhDs teaching at the secondary school level. Additionally, the study found a direct link between better investing decision-making skills and the degree of schooling obtained.

**Table 4.5**

*Highest level of education*

		<b>f</b>	<b>%</b>
<b>Valid</b>	Diploma	70	24.2
	Undergraduate	175	60.6
	Masters	44	15.2
	PhD	0	00.0
	<b>Total</b>	<b>298</b>	<b>100.0</b>

#### 4.4.4 Income of the Respondents

The research demonstrated that 27.5% of participants had earnings below sh 30000. A larger portion, 38.5%, reported incomes from sh 30001-50000, primarily due to the recent significant increase in government employment following the implementation of free primary and secondary education. Meanwhile, 13.2% had earnings ranging from sh 50001-70000, and 7.7% were making sh 70001-90000. Additionally, 13.2% reported having an income higher than sh 90000, as indicated in Table 4.6. It was predicted that a higher income level corresponds with greater financial acumen, enabling individuals with more substantial earnings to make a broader

range of investment choices.

**Table 4.6**

*Income earned by respondents*

	<b>Monthly Income earned</b>	<b>Frequency</b>	<b>Percent</b>
	<b>(Kshs)</b>		
<b>Valid</b>	Below 30000	79	27.5
	30001-50000	112	38.4
	50001 - 70000	38	13.2
	70001 - 90000	22	7.7
	Above 90000	38	13.2
	<b>Total</b>	<b>289</b>	<b>100.0</b>

#### **4.4.5 Position Held at School by the Respondents**

Principals made up 9.9%, deputy principals 8.8%, senior teachers 5.5%, deans of studies 5.5%, department heads 11%, and regular teachers 59.3% of the 289 respondents who filled out and returned their questionnaires (Table 4.7). Those in higher positions typically have greater financial responsibilities, and as such, individuals in administrative roles or department heads often have more opportunities for exposure, including attending seminars and handling budgetary duties related to their positions.

**Table 4.7***Position held by the respondents*

	<b>Position held</b>	<b>Frequency</b>	<b>Percent</b>
<b>Valid</b>	Principal	29	9.9
	Deputy principal	25	8.8
	Senior teacher	16	5.5
	Dean of studies	16	5.5
	Head of departments	32	11.0
	Teacher	171	59.3
	<b>Total</b>		<b>289</b>

#### **4.5 Descriptive Statistics**

This section introduces and examines the outcomes of descriptive statistical analysis on the profiles of participants and the study variables related to financial literacy, which includes debt management, savings, budgetary, and risk diversification literacy on investment decision.

##### **4.5.1 Descriptive Statistics of Investment Decision Making**

The dependent variable in this study was the investment decision, aiming to identify the investment choices made by the participants in both the overall and financial market contexts.

Table 4.8 presented the study's findings using descriptive statistical methods.

**Table 4.8***Respondent's Investment Options*

	Investment in general	Frequency	Percent
<b>market</b>			
<b>Valid</b>	Retail/Wholesale shop	70	24.2
	Real estate	114	39.5
	Hardware	44	15.2
	Saloon	19	6.6
	Transport i.e Matatu industry	13	4.5
	Hotel, food and beverage	29	10.0
	<b>Total</b>	<b>289</b>	<b>100.0</b>

The data analysis in table 4.8 reveals that among the 289 respondents who invested in the broader market, 39.5% preferred real estate investments due to the minimal oversight required post-investment and the assurance of a consistent and stable income. Additionally, 24.2% favoured entering the retail/wholesale sector, attributing their choice to the fewer legal hurdles when starting these types of businesses. Moreover, 15.2% of the participants were inclined towards establishing a hardware store. Regarding the salon, transport, hotel, and food & beverage sectors, the preferences stood at 6.6%, 4.5%, and 10.0%, respectively. A notable reluctance was observed towards the transport sector, with minimal interest attributed to prevalent corruption among traffic law enforcement and challenges with Matatu employees regarding revenue-sharing agreements. This analysis underscores a pronounced preference for real estate and retail/wholesale ventures, contrasted with a marked disinterest in the transport sector and the salon, hotel, and food & beverage industries.

The study also sought to assess the respondent's investment decision in the financial market,

the findings are as shown in Table 4.9.

**Table 4.9**

*Respondent's Investment in Financial Market*

	<b>Investment in Financial market</b>	<b>Frequency</b>	<b>Percent</b>
<b>Valid</b>	Bank deposits e.g Saving accounts	96	33.2
	Sacco shares	165	57.1
	Shares from listed companies	25	8.7
	Government bonds, corporate bonds, Debentures &	3	1.0
	Preference shares		
	<b>Total</b>	<b>289</b>	<b>100.0</b>

Table 4.9 shows that financial market investments demonstrated that Majority (57.1%) of educators allocated resources to Sacco shares, attributed to the institution's lower borrowing rates and the potential for annual dividend yields. This preference underscores the value placed on security and predictable returns in their investment choices (Johri et al., 2023). In contrast, 33.0% of educators opt for bank deposits, such as savings accounts, indicating a significant inclination towards traditional and highly liquid investment vehicles. This choice further reinforces the notion of a conservative investment strategy among this demographic. A smaller segment (8.8%) of the sample population is involved with equity investments in publicly traded companies, suggesting a moderate engagement with the stock market, which might be indicative of a perceived higher risk or a lack of awareness of the potential benefits associated with equity investments. Furthermore, only a marginal 1.1% express interest in government or corporate bonds, debentures, and preference shares. This minimal engagement could be attributed to either a scarcity of financial literacy related to these investment options or a general disinterest in them, potentially due to their complexity or the perception of lower returns compared with other investment types (Amenya, 2023).

From the findings there is a need for enhancing financial education among educators, especially

concerning the benefits and risks associated with various investment vehicles, including stocks, bonds, debentures, and preference shares. Furthermore, the mainly conservative investing preference points to a chance for institutions and financial advisors to customize their services and recommendations to better suit the requirements and goals of this group.

The study further sought to establish the respondent's preferred income for Investment and the findings were presented in Table 4.10.

**Table 4.10**

*Income preferred for investment*

<b>Income investment proportion</b>	<b>Frequency</b>	<b>Percent</b>
Between 0 - 10%	50	17.3
Between 11 - 20%	89	30.8
Between 21 - 30%	67	23.2
Between 31 - 40 %	19	6.6
Between 41 - 50 %	29	10.0
Above 50%	35	12.1
<b>Total</b>	<b>289</b>	<b>100.0</b>

Table 4.10, which shows the respondents' chosen income for investments, shows that 17.3% of respondents preferred to invest 0–10% of their income. A significant proportion, 30.8%, opted to invest 11-20% of their income, attributing this decision to the limitations imposed by their reliance on a fixed salary for covering all monthly expenses. Furthermore, 23.2% of the respondents were inclined to invest 21-30% of their income. A smaller fraction, 6.6%, was willing to allocate 31-40% of their income towards investment, while 10.0% considered investing 41-50%. Lastly, 12.1% of the participants expressed a preference for investing more than 50% of their income. This distribution reflects the diverse investment preferences and financial strategies among the respondents, shaped largely by their income constraints.

Respondents were required to indicate their preferred duration of investments and the responses

were as presented in Table 4.11.

**Table 4.11**

*Duration of investment*

	<b>Duration invested</b>	<b>Frequency</b>	<b>Percent</b>
<b>Valid</b>	1 - 5 years	75	25.9
	6 to 10 years	45	15.6
	>10 years	169	58.5
	<b>Total</b>	<b>289</b>	<b>100.0</b>

According to the findings in Table 4.11, the study indicates that none of the participants favored investments with a duration of less than a year. A portion of the respondents, 25.9%, selected an investment period ranging from 1 to 5 years. Another 15.6% showed a preference for investments lasting between 6 and 10 years. The majority, however, at 58.5%, expressed a desire for investments extending beyond 10 years. This indicates a significant inclination among the respondents toward strategies that are likely aimed at substantial returns over an extended period, which may also involve a higher tolerance for risk. Collectively, these observations reveal a diverse range of investment duration preferences among individuals, with a substantial emphasis on long-term investment commitments.

**Expected Return from Investment**

The researcher further sought to establish the respondent's expectations of return from the investment and the responses are indicated in Table 4.12.

**Table 4.12***Expected return from investment*

	<b>Expected return</b>	<b>Frequency</b>	<b>Percent</b>
<b>Valid</b>	Between 5 - 10 %	29	10.0
	Between 11 - 15 %	38	13.2
	Between 16 - 20%	54	18.7
	Between 21 - 25%	32	11.0
	Between 26 - 30 %	60	20.8
	Above 30%	76	26.3
	<b>Total</b>	<b>289</b>	<b>100.0</b>

Table 4.12 shows that 10.0% of participants showed a preference for returns between 5-10%, while 13.2% aimed for returns in the 11-15% range. A larger share, 18.7%, targeted returns between 16-20%, and 11% aspired to achieve returns of 21-25%. Notably, 20.8% of respondents were inclined towards returns of 26-30%, and the largest segment, 26.4%, sought returns exceeding 30%. The analysis underscores a diverse range of risk tolerance and return expectations among teachers when it comes to investment. Notably, as the desired return rates increase, there's a discernible shift in preference, with a significant portion of the population seeking higher returns. The largest group of respondents, 26.3%, exhibits a high-risk, high-reward investment strategy by aiming for returns above 30%. This trend suggests that a substantial number of teachers are willing to embrace more aggressive investment approaches, possibly reflecting a broader appetite for investment opportunities that offer substantial gains, albeit with potentially higher risks.

**Motivators of Investment**

The participants were inquired about the factors that motivated them to invest. Their responses were collected and displayed using 5-point Likert scale.

**Table 4.13***Motivators of Investment*

	N	Min	Max	Mean	Std. Deviation
How retirement influences investment decisions of an individual	289	1	5	3.32	1.37
How cash flow motivates investment decisions undertaken by an individual	289	1	5	3.44	1.21
How a desire to switch careers affects investment choices	289	1	2	3.67	1.03
How lifestyle influences personal investment decisions	289	1	5	3.15	1.14
How tax shelter influences investment decisions undertaken by an individual	289	1	5	2.64	1.76
Valid N (listwise)	289				

The results from Table 4.13 reveal a significant insight into the motivations behind investment choices among respondents. Predominantly, the decision to invest is highly motivated by individuals' aspirations to shift their career paths, as evidenced by a notable mean score of 3.67. In contrast, the impact of tax incentives on investment decisions is considered moderate, reflected by a lower mean of 2.64. Additionally, factors such as retirement planning, cash flow considerations, and lifestyle adjustments also moderately influence the investment decisions, with respective mean scores of 3.32, 3.44, and 3.15. These findings underscore a tight concentration of data around the mean values, suggesting a low variance within the respondent's motives. This close clustering indicates that the variation in investment motivations among the surveyed individuals is minimal, making it a reliable representation of the wider population's patterns. The analysis is further supported by the range of mean values from 2.64 to 3.67, indicating consistency in motivational factors. Measures of dispersion,

including standard deviation span between 1.03 to 1.76, which corroborates the presence of a low spread within the data. Together, these statistical indicators provide a strong foundation for deducing that the investment decision-making process among the population studied is significantly influenced by personal career aspirations, with other factors like tax benefits, retirement, cash flow, and lifestyle adjustments playing a moderate role.

#### **4.5.2 Effect of Debt Management Literacy on Investment Decision**

The first objective of the research aimed to explore how debt management literacy influences investment decision among secondary school teachers working for the Teachers Service Commission in Meru County. To collect data, all participants answered identical questions, which were rated using a Likert scale where 1 indicated "strongly disagree," 2 was "disagree," 3 stood for "neutral," 4 for "agree," and 5 for "strongly agree." According to the Likert scale outcomes, descriptive statistical analysis showed that mean scores below 3.0 indicated some level of disagreement among the participants regarding certain debt management practices. On the other hand, average scores more than 3.0 suggested that people generally agreed that managing debt was a good way to choose investments.

**Table 4.14***Responses on Debt Management and investment decision*

Statements	N	Min	Max	Mean	Std. Deviation
Have not failed to make payments on SACCO loans.	289	1	5	4.36	1.150
Read the terms and conditions that apply to credit products.	289	1	5	3.75	1.007
Funds borrowed from friends are quickly repaid.	289	1	2	3.63	1.103
I Ensure my account covers my cheques to avoid them being bounced for lack of funds.	289	1	5	3.56	1.004
As long as you are able to pay, use unsecured loans.	289	1	5	3.14	1.303
Don't take overdrafts to offset debts	289	1	5	3.10	1.090
Salary encompasses all financial commitments	289	1	5	2.49	1.301
Mean Score				3.42	1.106
Valid N (listwise)	289				

The analysis of employee debt management behaviors, as reflected in mean scores, highlights several noteworthy practices. These include avoiding SACCO loan defaults ( $M = 4.28$ ), conscientiously reading credit product terms and conditions ( $M = 3.75$ ), promptly repaying money borrowed from friends ( $M = 3.63$ ), cautiously utilizing unsecured loans based on repayment capacity ( $M = 3.14$ ), refraining from using overdrafts for debt repayment ( $M = 3.10$ ), and facing challenges with salaries not covering all financial obligations ( $M = 2.49$ ). An index was formulated by summing these ratings to assess employees' overall financial decision-making regarding debt management, revealing an average score of 3.42, with a standard deviation of 1.106. These results suggest that the participants generally engage in prudent debt

management behaviors, such as ensuring loan repayments and understanding credit terms, although some resort to overdrafts for debt management, and a significant proportion struggles to meet financial commitments through their salary. This contrasts with Amromin, Bhutta, and Keys, (2020). Findings, which indicated a widespread misunderstanding of loan and mortgage terms among borrowers and homeowners.

#### **4.5.3 Effect of Saving Literacy on Investment Decision**

To assess the impact of saving literacy on investment decisions among secondary school teachers in Meru County, respondents were asked to indicate their level of agreement with several statements. A Likert scale was used to measure and score the data, with 1 denoting strongly disagree, 2 disagree, 3 moderately agree, 4 agree, and 5 strongly agree. The mean scores were used to interpret the results of the descriptive statistics: scores below 3.0 showed disagreement with certain aspects of the decisions made about investments and savings, while scores above 3.0 showed agreement with the significance of these decisions in personal financial decision-making. Table 4.15 presents the findings.

**Table 4.15***Responses on Savings and Investments Decisions*

Statements	N	Min	Max	Mean	Std. Deviation
Put money aside for retirement and future investments.	289	1	5	4.07	0.940
Set and strive for long-term financial objectives.	289	1	5	3.81	1.030
Save a certain percentage of your monthly income before you spend the rest.	289	1	5	3.45	1.023
dispose loss-making investments	289	1	5	3.45	1.180
Consider different investments from different companies	289	1	5	3.44	1.140
Distribute funds among several investment categories.	289	1	5	3.34	1.100
When I receive a pay raise, I will increase my savings.	289	1	5	3.22	1.150
Overall Mean Score				3.54	1.101
Valid N (listwise)	289				

In Table 4.15, regarding savings and investments decision, it is observed that respondents show a relatively high adeptness in making decisions about saving for retirement and future investments with an average score of 4.07, and setting long-term financial goals with an average score of 3.81. Their financial decision-making also reflects moderate actions in "saving a specified percentage of their monthly income before expenditure" reported at an average score of 3.45, eliminating investments that are not profitable also with a score of 3.45, evaluating various investment options from different firms" at 3.44, diversifying their investments across several types at 3.34, and boosting their savings with every salary increase at 3.22. The observations suggest a prioritization towards immediate financial security and goal-setting over diversification or incremental savings growth strategies. The overall findings suggest that while there is a commendable level of decision-making prowess among respondents, especially in

areas concerning the future, such as retirement savings and establishing long-term financial objectives, there is a noticeable gap in strategies that involve diversification and adjusting savings rates in response to salary increases.

With an overall average investment decision-making score related to savings and investments pegged at 3.54, the results are generally positive, indicating proficient investment decision-making abilities among employees regarding their financial positions. However, drawing from Ifeanyi and Rena (2018) found that although individuals exhibited a reasonable level of decision-making, many tended to underestimate the importance of key elements of financial planning, such as retirement preparedness, estate planning, insurance, and tax implications (Ifeanyi & Rena, 2018). This oversight underscores a need for enhanced awareness and literacy concerning comprehensive financial planning including estate, insurance, and tax planning benefits beyond the basics of saving and investing.

#### **4.3.4 Effect of Budgetary Literacy on Investment Decision**

The third objective of the research aimed to effect of budgetary literacy on investment decision among secondary school teachers in Meru County among secondary school teachers working under TSC in Meru County. To collect data, all participants answered identical questions, which were rated using a Likert scale where 1 indicated "strongly disagree," 2 was "disagree," 3 stood for "neutral," 4 for "agree," and 5 for "strongly agree." According to the Likert scale outcomes, descriptive statistical analysis showed that mean scores below 3.0 indicated some level of disagreement among the participants regarding certain debt management practices. Conversely, mean scores above 3.0 indicated a consensus on the effectiveness of budgetary literacy in making investment decisions.

**Table 4.16***Responses on Budgetary Literacy and Investment Decisions*

Statement	N	Min	Max	Mean	Std. Deviation
Budgetary literacy increases my confidence in managing my investment portfolio.	289	1	5	3.60	1.101
Budgetary literacy helps me make informed and confident financial investment decisions.	289	1	5	3.53	1.011
My ability to weigh the risks and rewards of various investment possibilities is improved by my budgetary literacy.	289	1	5	3.25	1.103
Budgetary constraints restrict the variety of investment options available to me.	289	1	5	3.17	1.100
I prioritize maintaining a balanced budget over pursuing potentially lucrative investment opportunities	289	1	5	2.95	1.020
I believe that budgetary constraints can lead to missed investment opportunities.	289	1	5	2.94	1.106
Overall Mean Score `				3.24	1.074
Valid N (listwise)	289				

Based on findings in Table 4.16, it is evident that respondents display a moderately positive assertion towards their capacity in handling various aspects budgetary literacy and investment decisions. The data suggests a moderate level of confidence among participants regarding their ability to evaluate the potential downsides of their investments, with a mean score of 3.1 and a standard deviation of 1.022. This aligns with the assertions made in the literature, where understanding and evaluating investment risks are considered crucial competencies in personal financial management (Xiao, & O'Neill, 2018).

When considering the capacity to determine the most suitable investment mix, the mean score is slightly higher at 3.18 with a standard deviation of 1.010, suggesting a slightly stronger, yet

still moderate, perceived ability in asset allocation. The importance of asset allocation resonates with the principles of Modern Portfolio Theory (MPT), which posits that diversification and appropriate asset allocation are key to optimizing returns for a given level of risk (Markowitz, 1952). Further respondents reported a mean score of 3.15 (Std. Deviation 1.005) for asset diversification to minimize risks supports the notion that participants recognize the significance of spreading assets. A notable increment in confidence is observed in evaluating the performance of funds or managed investments and having a clear plan for purchasing stocks, with mean scores of 3.33 and 3.34 respectively.

The consideration of retirement savings and the balance of credit and debt manifest even higher confidence levels among participants, with mean scores of 3.52 and 3.55, suggesting a fairly robust understanding and strategic approach towards long-term financial planning and debt management. This is consistent with the theoretical framework suggesting that long-term financial planning and prudent debt management are pivotal to achieving financial stability and security (Davies & Lea, 1995). Also, with an overall mean score of 3.31 and a standard deviation of 1.015, the findings paint a picture of moderate confidence among participants regarding their personal finance and investment management skills. This moderate level of confidence is reflective of the complexities associated with financial decision-making and underscores the need for continuous education and guidance in financial literacy, as suggested by Fernandes et al. (2014) to further empower individuals in their financial and investment endeavors

#### **4.5.5 Effect of risk diversification on Investment Decision**

The fourth goal of the study was to evaluate the impact of risk diversification knowledge on the investment choices made by TSC teachers in Meru County's public secondary schools. All participants answered identical questions rated on a five-point scale from 1 (strongly disagree) to 5 (strongly agree). The results are presented in Table 4.17.

**Table 4.17***Responses on Risk Diversification and Investment Decisions*

Statement	N	Min	Max	Mean	Std. Deviation
I can evaluate the potential downsides of my investments.	298	1	5	3.1	1.022
I can determine the most suitable investment mix to put my money into.	298	1	5	3.18	1.010
I have spread my assets to minimize risks.	298	1	5	3.15	1.005
I can evaluate how well a fund or managed investment is performing.	298	1	5	3.33	1.042
I have a clear plan for buying stocks.	298	1	5	3.34	1.023
I have a retirement savings strategy in place for the future.	289	1	5	3.52	1.003
Effective credit and debt management enables me to accomplish both immediate and long-term goals.	289	1	5	3.55	1.002
Overall Mean Score				3.31	1.015
Valid N (listwise)	298				

The findings revealed that participants generally agreed that effectively managing their credit and debt was crucial for achieving both short-term and long-term financial goals, with mean scores of 3.55 and 3.52, respectively. Additionally, respondents acknowledged the importance of having a retirement benefits plan for their future. However, there was uncertainty regarding their ability to assess expected risks, evaluate their investment portfolios, diversify assets, assess fund performance, and develop strategies for purchasing stocks. These aspects received mean scores of 3.15, 3.33, and 3.34, respectively, with standard deviations of 1.005, 1.042, and

1.023, indicating a small variation in responses.

The study's results, as shown in the table, suggest that the data has a narrow spread, meaning the data points are clustered near the mean. This suggests that the sample data on investment choices and risk diversification is indicative of the general population. The means for the central tendency measures ranged from 3.1 to 3.55, while the standard deviations, which measure variability, ranged from 1.002 to 1.042.

These findings align with those of a study by Anastasia and Chrestella (2021) on the impact of geographical diversification on property investment decisions in Indonesia, where financial knowledge, potential returns, and geographic factors were found to significantly influence investment choices. Additionally, Curtis et al. (2020) noted that an imperfectly diversified portfolio can reduce an individual's or firm's willingness to take risks. This highlights how investment strategies can shape risk-taking behavior and affect the variability in cash flow for both individuals and organizations.

#### **4.6 Correlation Analysis**

The degree of a linear relationship between two variables is determined by the Pearson product-moment correlation coefficient. The intensity and direction of the link are indicated by this coefficient ( $r$ ), which shows how much two variables move together. With a statistical significance level of  $p < 0.05$ , the Pearson correlation coefficient ( $r$ ) was used in this study to assess the degree of association between workers' personal financial decisions and financial literacy. To investigate the connection between investment choices and financial literacy practices, correlation analysis was done. Table 4.18 displays the findings of this analysis.

**Table 4.18***Correlations*

		Debt Management	Saving Literacy	Budgetary Literacy	Risk Diversification	Investment Decision
Debt Management	Pearson Correlation	1				
	Sig. (2- Tailed)					
	N	289				
Saving Literacy	Pearson Correlation	0.120**	1			
	Sig. (2- Tailed)	0.000				
	N	289	289			
Budgetary Literacy	Pearson Correlation	0.416**	0.299**	1		
	Sig. (2- Tailed)	0.003	0.000			
	N	289	289	289		
Risk Diversification	Pearson Correlation	0.501**	0.163**	0.461**	1	
	Sig. (2- Tailed)	0.013	0.012	0.000		
	N	289	289	289	289	
Investment Decision	Pearson Correlation	0.501**	0.329**	0.226**	0.697**	1
	Sig. (2- Tailed)	0.001	0.000	0.003	0.000	
	N	289	289	289	289	289

\*\* . Correlation Is Significant At The 0.01 Level (2-Tailed).

Table 4.18 reveals a statistically significant positive correlation between the investment decisions of TSC teachers and their knowledge of debt management, with a correlation coefficient (r) of 0.501. This relationship is significant at the 0.01 level (2-tailed), as evidenced

by a p-value of 0.001, which provides strong evidence against the null hypothesis of no relationship, since the p-value is well below the 0.01 threshold. Similarly, a positive correlation is found between the investment decisions of TSC teachers and their savings literacy, with a correlation coefficient ( $r$ ) of 0.329. This result is also significant at the 0.01 level (2-tailed), with a p-value of 0.000, well below the 0.01 alpha level. Additionally, the analysis demonstrates a positive link between budgetary literacy and investment decisions, as evidenced by a p-value of 0.003 and a correlation coefficient ( $r$ ) of 0.226 that is significant at the 0.01 level (2-tailed). Lastly, a correlation coefficient ( $r$ ) of 0.697 indicates a substantial positive relationship between the teachers' investment choices and their knowledge of risk diversification. A p-value of 0.000 indicates that this result is highly significant at the 0.01 level (2-tailed).

A similar study corroborating these findings is presented in the literature review by Smith and Johnson (2018) who explored the effect of financial literacy on the investment behaviors of educators in public sector institutions. Their research found robust positive correlations between various dimensions of financial literacy (including debt management, savings acumen, budgeting skills, and risk diversification strategies) and investment decision-making. Specifically, they noted a significant positive correlation in areas of risk diversification strategies and investment decisions, which is in line with the strong correlation observed in the aforementioned table for TSC Teachers. Smith and Johnson's (2018) work underscore the critical role of financial literacy in fostering prudent investment decisions, thereby lending additional empirical support to the findings presented.

#### **4.7 Diagnostic Tests**

Diagnostic tests were conducted prior to performing multiple regression analysis to evaluate the overall model. The details of the specific tests performed are outlined below.

#### 4.7.1 Normality Test

**Table 4.19**

*Normality Test*

		Debt Management	Saving Literacy	Budgetary Literacy	Risk Diversification	Investment Decision
N		289	289	289	289	289
	Mean	20.2336	21.6636	21.4112	15.4393	19.953
						3
Normal Parameters <sup>a, b</sup>						
	Std. Deviation	4.56521	4.25140	4.52238	2.94662	4.1830
						4
Most Extreme Differences	Absolute	.177	.139	.120	.185	.124
	Positive	.177	.127	.120	.185	.124
	Negative	-.102	-.139	-.116	-.101	-.123
Kolmogorov- Smirnov	Z	1.027	1.134	1.246	1.118	1.287
Asymp. Sig. (2-tailed)		.102	.203	.191	.127	.090

Table 4.19 shows that the asymptotic significance (p-values) for debt management literacy, saving literacy, budgetary literacy, risk diversification, and investment decisions were 0.102, 0.203, 0.191, 0.127, and 0.090, respectively. Since all p-values exceeded 0.05, it indicates that the data follows a normal distribution and exhibits acceptable levels of variation.

#### 4.7.2 Linearity Test

Additionally, the study examined linearity, with the findings detailed in Table 4.20.

**Table 4.20**

*Linearity Test*

			Sum of Squares	df	Mean Square	F	Sig.
OPP * Debt Management		(Combined)	1274.504	17	74.971	11.499	.015
	Between	Linearity	909.109	1	909.109	139.438	.000
	Groups	Deviation From Linearity	365.395	16	22.837	3.503	.071
		Within Groups	580.263	255	6.520		
		Total	1854.766	289			
OPP * Saving Literacy		(Combined)	1111.089	16	69.443	8.404	.000
	Between	Linearity	923.721	1	923.721	111.789	.053
	Groups	Deviation From Linearity	187.368	15	12.491	1.512	.118
		Within Groups	743.678	256	8.263		
		Total	1854.766	289			
OPP * Budgetary Literacy		(Combined)	1301.417	17	76.554	12.313	.004
	Between	Linearity	975.263	1	975.263	156.860	.000
	Groups	Deviation From Linearity	326.154	16	20.385	3.279	.314
		Within Groups	553.349	255	6.217		
		Total	1854.766	289			
OPP * Risk Diversification		(Combined)	651.340	13	50.103	3.872	.000
	Between	Linearity	2.027	1	2.027	.157	.693
	Groups	Deviation From Linearity	649.313	12	54.109	4.182	.097
		Within Groups	1203.426	263	12.940		
		Total	1854.766	289			

Table 4.20 indicates the p-value for debt management literacy was 0.071, for saving literacy it was 0.118, for budgetary literacy it registered at 0.314, and for risk diversification, it stood at

0.09. Given that each of these p-values exceeded the 0.05 threshold, the dataset was deemed to exhibit linearity, consequently aligning along a straight line.

### 4.7.3 Multicollinearity Test

**Table 4.21**

*Multicollinearity Test*

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
1 Debt Management	.456	2.192
Saving Literacy	.415	2.411
Budgetary Literacy	.463	2.160
Risk Diversification	.914	1.094

Table 4.21 reveals that for debt management, the tolerance was 0.456 and the VIF stood at 2.192. The values were a VIF of 2.411 and a tolerance of 0.415 for literacy preservation. The tolerance and VIF for budgetary literacy were 0.463 and 2.160, respectively, whereas the tolerance and VIF for risk diversification were 0.914 and 1.094, respectively. These findings suggest that the characteristics of debt management, saving literacy, budgetary literacy, and risk diversification remain unaffected by the attributes related to investment decisions.

### 4.7.4 Autocorrelation Test

**Table 4.22**

*Autocorrelation Test*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin- Watson
1	.827 <sup>a</sup>	.684	.671	2.39753	1.732

Table 4.22 shows that the relationship between financial literacy practices and investment decisions had a Durbin-Watson statistic of 1.732. Consequently, because this value falls between 0 and 2, the research concluded that there was a positive correlation in the data.

#### 4.8 Multiple Regression Analysis

The research further conducted a multiple regression analysis to assess the effect of financial literacy on investment decision. It offered three key aspects of multiple regression analysis: a summary of the model, ANOVA, and regression coefficients.

##### 4.8.1 Model Summary

The study analyzed the impact of financial literacy on investment decisions by examining the model summary. The findings are presented in Table 4.23.

**Table 4.23**

*Model Summary*

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	.827 <sup>a</sup>	0.691	0.618	0.005

a. Predictors: (Constant), debt management, saving literacy, budgetary literacy, risk diversification

The study discovered that the correlation coefficient (R) is 0.827 and the coefficient of determination (R-squared) is 0.691 based on the data shown in Table 4.23. This suggests that 69.1% of the diversity in the investment choices made by TSC instructors in Meru County's public secondary schools can be explained by financial literacy. Other factors not covered in this research account for the remaining 30.9% of the variation.

### 4.8.2 Analysis of Variance

The primary aim of this study was to evaluate the impact of financial literacy on investment decisions among public secondary school teachers in Meru County, Kenya. To assess this influence, the study employed ANOVA analysis, and the results are provided in Table 4.24.

**Table 4.24**

*ANOVA*

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	1268.457	4	317.114	55.168	.000 <sup>b</sup>
Residual	586.309	285	5.748		
Total	1854.766	289			

a. Dependent Variable: Investment Decision

b. Predictors: (Constant), Debt Management, Saving Literacy, Budgetary Literacy, Risk Diversification

According to the findings in Table 4.24, the financial literacy influence's p-value was 0.000. This indicated that investing decisions were positively impacted by financial literacy. Therefore, the various parameters of financial literacy such as debt management, saving literacy, budgetary literacy and risk diversification had the ability to improve investment decision among the TSC teachers.

### 4.8.3 Coefficient of Regression

The study had a model which indicated that:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + e$$

Where:

Y = investment decisions

$\beta_0$  is the constant term.

$\beta_i$  denotes the coefficient of each independent variable.

$X_1$  represents debt management.

X<sub>2</sub> represents saving literacy.

X<sub>3</sub> represents budgetary literacy.

X<sub>4</sub> represents risk diversification.

e represents the error term.

The results of coefficient of regression are presented in Table 4.25.

**Table 4.25**

*Regression of Coefficients*

Model	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
1 (Constant)	0.597	0.322		3.384	0.354
Debt Management	0.045	0.095	0.166	0.401	0.017
Saving Literacy	0.363	0.029	0.178	2.088	0.001
Budgetary Literacy	0.138	0.077	0.097	0.921	0.078
Risk Diversification	0.340	0.055	0.012	0.111	0.012

a. Dependent Variable: Investment Decision

The regression data in Table 4.25 indicates that the debt management literacy coefficient stands at .045. This means under stable conditions; a single unit increase in debt management literacy correlates with a .045 increase in the investment choices of TSC teachers in Meru County's public secondary schools. Thus, it's evident that debt management literacy plays a statistically significant role in shaping investment decisions ( $\beta = 0.045$ ;  $t = 0.017$ ;  $p < 0.05$ ). On the other hand, the coefficient for saving literacy practices is determined to be 0.363. This implies that an improvement by one unit in saving literacy is associated with a 0.363 enhancement in investment decision-making among the TSC teachers in the same region, assuming other factors are held constant. Accordingly, saving literacy practices are found to significantly impact

investment decisions ( $\beta = 0.363$ ;  $t = 0.001$ ;  $p < 0.05$ ).

The budgetary literacy coefficient stands at 0.138, indicating that an increase of one unit in budgetary literacy leads to a boost of 0.138 in the investment choices among TSC educators in Meru County's public secondary institutions, assuming no changes in other variables. Consequently, it was established that budgetary literacy parameters insignificantly influence investment decisions ( $\beta = 0.138$ ;  $t = 0.078$ ;  $p > 0.05$ ). For risk diversification literacy, the coefficient is measured at 0.340. This implies that enhancing risk diversification literacy by one unit causes a substantial increase of 0.340 in the investment decisions made by TSC teachers in the same region, given that all other factors stay constant. It was thus concluded that the comprehension of risk diversification significantly impacts the investment decisions ( $\beta = 0.340$ ;  $t = 0.012$ ;  $p < 0.05$ ).

#### **4.9 Testing Hypothesis**

The first hypothesis examined posited that there was an absence of a substantial connection between debt management skills and investment decision-making among TSC teachers. Reference to the data presented in the table 4.25 reveals the significance ( $p$ ) values associated with debt management literacy stand at 0.017. According to statistical paradigms, when  $p < 0.05$ , it substantiates that the independent variable significantly influences the dependent variable. Therefore, when exploring the effect of debt management literacy on making investment decisions, a significance value ( $p$ ) of 0.017, which falls below the 0.05 threshold, articulates that debt management literacy markedly affect investment decisions. Consequently, this evidence leads to the rejection of the null hypothesis. This outcome is consistent with that of Amponsah and Mensah (2021) who demonstrated a clear correlation between financial literacy, specifically in debt management, and the propensity to make informed investment decisions. This congruency in findings highlights the vital role of financial literacy in enhancing an individual's investment decision-making capabilities.

The second hypothesis proposed that there was no significant relationship between savings literacy and the investment decisions of TSC teachers. According to the data presented in Table 4.25, the significance (p) value for savings literacy was found to be 0.001. Since this value is less than the threshold of  $p < 0.05$ , it indicates that savings literacy has a significant effect on investment decisions. As a result, the null hypothesis is rejected. These results align with the work of Lusardi and Mitchell (2014), who contend that better financial literacy—especially when it comes to saving—is essential for empowering people to make knowledgeable investing choices. They stress that people may evaluate investment options more skillfully and achieve better financial results if they have a solid understanding of financial principles.

The study also examined the impact of budgetary literacy on investment decisions among TCS teachers, with the null hypothesis suggesting no significant relationship. As shown in Table 4.25, the significance (p) value for budgetary literacy was 0.078. Since this value exceeds the 0.05 significance threshold, the results suggest that budgetary literacy does not significantly influence investment decisions among the participants. Therefore, the null hypothesis stands. This is consistent with research by Otieno (2018), who found that financial literacy had no influence on educators' investing choices. Similarly, research by Aduda et al. (2019) supports this view, noting a limited impact of financial literacy on the financial behaviors and investment strategies of teachers. These studies suggest that while budgetary literacy may have some influence, other factors likely play a more substantial role in shaping investment choices.

The fourth hypothesis focused on the effect of risk diversification knowledge on investment decisions among TSC teachers. The data in Table 4.25 showed a significance (p) value of 0.012 for risk diversification, which is below the 0.05 threshold. This indicates that knowledge of risk diversification has a significant impact on investment decisions. As a result, the null hypothesis is rejected.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

The study explored how financial literacy influences the investment choices of public secondary school teachers in Meru County, Kenya. The independent variables examined were debt management, savings literacy, budgeting skills, and risk diversification. This section provides a summary of the findings, addresses the objectives of the study, and discusses the implications of these results. It also proposes recommendations for future research to address the identified gaps in the current study.

#### 5.2 Summary of Findings

The summary of the findings is described based on each study variable;

##### 5.2.1 Investment Decision

The dependent variable in this study was the investment decision, aiming to identify the investment choices made by the participants in both the overall and financial market contexts. The data analysis of 289 respondents indicates that 39.5% favor real estate investments for their low maintenance and stable income. 24.2% prefer the retail/wholesale sector due to fewer legal barriers to entry. 15.2% are interested in starting a hardware store, while preferences for the salon, transport, hotel, and food & beverage sectors are 6.6%, 4.5%, and 10.0% respectively. The investigation highlighted that a majority (57.1%) of educators invest in Sacco shares due to lower borrowing rates and potential annual dividends, showing a preference for secure and predictable returns. Meanwhile, 33.0% prefer bank deposits like savings accounts, showcasing a conservative investment strategy aimed at liquidity. Only 8.8% are engaged in equity investments, indicating a cautious approach to the stock market due to perceived risks or lack of awareness. A negligible 1.1% invest in bonds or debentures, highlighting a very limited

interest in these investment options.

### **5.2.2 Debt Management and Investment Decisions**

The study first objective was to explore how debt management literacy influences investment decision among secondary school teachers working for the TSC in Meru County. The practices identified range from avoiding loan defaults (4.28) and carefully reading credit terms (3.75), to managing unsecured loans based on repayment ability (3.14) and avoiding overdrafts for repaying debts (3.10). A significant challenge noted is that salaries often don't cover all financial obligations (2.49). An index created by totaling these scores reveals an average decision-making score regarding debt management to be 3.42, with a standard deviation of 1.106.

The study found a statistically significant positive correlation between the investment decisions of TSC teachers and their ability to manage debt, as indicated by a correlation coefficient ( $r$ ) of 0.501.

### **5.2.3 Saving Literacy and Investment Decisions**

The second objective of the study aimed to evaluate the impact of saving literacy on investment decisions among public secondary school TSC teachers in Meru County. The findings showed that, with average scores of 4.07 and 3.81, respectively, people demonstrate a great capacity to make decisions about retirement savings and long-term financial objectives. However, their approach to financial decision-making shows moderate engagement in practices such as saving a set percentage of income, eliminating unprofitable investments, evaluating various investment options, diversifying investments, and increasing savings with salary hikes, with scores ranging from 3.22 to 3.45. Although there is evident skill in planning for future finances, there's a relative lack of focus on diversification and adjusting savings in response to income changes. The overall average score of 3.54 in investment decision-making reflects a proficient level of capability among individuals in managing their finances, specifically in the context of savings and investments. The study found that TSC Teachers' investment choices and their savings

literacy were positively correlated, with a correlation coefficient ( $r$ ) of 0.329. This is significant at the 0.01 level (2-tailed) with a p-value of 0.000.

#### **5.2.4 Budgetary Literacy and Investment Decision**

The third objective of the research aimed to examine effect of budgetary literacy on investment decision among secondary school teachers in Meru County among secondary school teachers working under TSC in Meru County. The findings highlight that individuals hold a moderately positive perception of their abilities in managing finances and making investment decisions. The data reveals an average level of confidence in evaluating investment risks, with a mean score of 3.1. Participants also felt slightly more confident in selecting the right investment mix and diversifying assets to minimize risks, showing slightly higher mean scores. Notably, there was a stronger confidence level in understanding fund performance and making informed decisions about stock purchases. Respondents showed even higher confidence in managing retirement savings and balancing credit and debt, indicating a solid grasp of long-term financial planning and debt management strategies. Overall, the average confidence score was 3.31, suggesting that while there is a moderate assurance in personal finance and investment management abilities, there exists room for improvement through ongoing education and guidance in financial literacy.

The correlation findings revealed a positive association between investment decisions and budgetary literacy at a correlation coefficient ( $r$ ) of 0.226, which meets the significance criterion at the 0.01 level (2-tailed), as the p-value here is 0.003.

#### **5.2.5 Risk Diversification and Investment Decision**

The study's fourth objective was to assess how knowledge of risk diversification influences investment decisions made by TSC teachers. The findings indicating that while participants see the value in managing credit, debt, and having a retirement benefits plan (with mean scores of 3.55 and 3.52, respectively) for their future security, they also exhibit uncertainty in their ability

to handle various investment strategies effectively. Skills such as assessing risks, analyzing investment portfolios, diversifying assets, evaluating fund performance, and strategizing stock purchases were areas of concern, with mean scores ranging from 3.15 to 3.34 and standard deviations around 1.00, reflecting minor variance in responses. The low spread in data points, signified by standard deviations from 1.002 to 1.042, indicates that the responses are closely clustered around the mean, suggesting the sample distribution accurately represents the population's views on these financial management and investment subjects.

Correlation findings revealed a strong positive correlation between the teachers' investment decisions and their understanding of risk diversification, marked by a correlation coefficient ( $r$ ) of 0.697, with this result too being highly significant at the 0.01 level (2-tailed), highlighted by a  $p$ -value of 0.000.

### **5.3 Conclusion**

The conclusion on debt management indicates that employees tend to practice responsible financial behavior, demonstrated by their efforts to avoid defaulting on loans, carefully review credit terms, repay borrowed funds on time, and use unsecured loans responsibly. Despite these positive behaviors, challenges persist, such as the reliance on overdrafts and difficulties covering all financial obligations with salaries.

Concerning saving literacy, the main conclusion drawn from the findings indicates that respondents demonstrate a commendable level of decision-making skill in aspects of savings and investments, particularly in planning for retirement and establishing long-term financial goals. However, there is a notable deficiency in adopting strategies involving diversification and the adjustment of savings rates with salary increments. While respondents show proficiency in financial decision-making, the prioritization leans more towards immediate financial security and goal-setting rather than on strategies that could potentially enhance their financial growth over time, such as diversification or incrementally boosting savings.

On budgetary literacy the study concluded that participants exhibit a relatively high degree of confidence in their ability to evaluate investment performance, manage stock purchases, and handle long-term financial planning, including retirement savings and debt management. This demonstrates a solid understanding and experience in essential areas of financial and investment management.

Referring to risk diversification the study concluded that Participants recognize the significance of managing credit, debt, and the essential role of retirement benefits planning in reaching both immediate and long-term financial objectives. On the other hand, there is a noticeable gap in confidence among respondents when it comes to understanding and managing investment-related actions such as assessing risks, diversifying assets, and formulating strategies for purchasing stocks.

#### **5.4 Recommendation**

The research findings highlighted that teachers possess an average understanding of financial concepts, primarily due to a lack of knowledge about various investment options, such as financial investments. It suggests that implementing financial education programs for staff could bridge this knowledge gap. It also promotes the development of a culture among Teaching Service Commission (TSC) teachers that prioritizes investing and saving.

The research indicates the importance of raising awareness and executing in-depth financial strategies that ensure immediate financial stability and promote long-term financial growth and security. It advises teachers to collaborate in pooling resources and identifying the most advantageous investment options to minimize the risk impact individually. The study underscores the significance of consulting with financial experts like advisors, analysts, and portfolio managers to make informed investment decisions for teachers.

Teachers are also encouraged to choose appropriate insurance products in order to protect their

investments from possible threats. The researcher suggests that teachers should consider investing significantly in real estate due to its stable and reliable returns, seek tax-efficient investment avenues to shield their savings from heavy taxation, negotiate for affordable loan options with lower interest rates while avoiding loan top-ups to prevent increased costs, and prioritize saving over borrowing. These measures are recommended to lessen the adverse effects of inflation on individual investors.

### **5.5 Suggestion for Further Studies**

The researcher suggests conducting comprehensive research on how risk affects individual investment choices to support teachers who possess the financial resources but are hesitant to invest due to risks. The researcher suggests making an effort to investigate non-economic factors that could influence instructors' decision-making regarding investments.

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