**Journal of Economics, Finance and Accounting Studies (JEFAS)**
**www.jefas.one**

JEFAS

**Original Research Article**

# Financial Literacy and Saving Behavior Among Micro and Small Enterprise Owners in Kampala, Uganda: the Moderating Role of Social Influence

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**ARTICLE INFO**

*Article History*
**Received**: May 02, 2020
**Accepted**: June 22, 2020
**Volume**: 2
**Issue**: 1

**KEYWORDS**

Social Influence, financial literacy, saving behavior, Kampala, Uganda

**ABSTRACT**

Savings behavior is particularly critical for owners of micro and small enterprises that have minimal access to credit and yet play a crucial role in both production and employment. This is clear, since they can start small investment over time. This is possible only when saving is planned and embraced. Nevertheless, the individual management of their money will influence the sustainability of these micro and small enterprises. This is especially true in Uganda for individuals in Sub-Saharan Africa (SSA), where 3/5 small enterprises are collapsing due to their poor saving behavior, which is compounded by the lack of access to credit. The capacity for one to manage money effectively requires cautiousness in expenditure decisions in saving money hence assisting them to improve and be able to sustain their businesses. Using cross-sectional data from 395 micro and small enterprise owners from Kampala, Uganda, this study, examines the moderating effect of social influence on the relationship between financial literacy and saving behavior among micro and small enterprise owners in Kampala, Uganda. Process macro is used as a statistical tool to analyze the data collected by the use of a questionnaire. The study was guided by both the social cognitive and social capital theories. Results indicate that both financial literacy and social influence significantly predict saving behavior. Besides, the relationship between financial literacy and saving behavior is moderated by social influence. The results further indicate that much as social capital is a necessity, too much of it may dilute relationship between financial literacy and savings behavior. These results bring additional insights to both research and theory.

## 1. Introduction

Saving behavior is a critical requirement for individuals to help them figure out how to solve potential future financial decisions themselves by learning and rehearsing good financial skills in their lives. Saving instils control of individual consumptive ways and learning how to spend wisely (Ariffin *et al.,* 2017). Demonstrating an effective saving behavior does not "come automatically," but can be achieved by promoting, mentoring, and sharing information about money management approaches through family, friend, and colleagues' shared influence. Putting money away for the future, though, is a dynamic judgment that requires positive conduct in saving (Gerhard *et al.,* 2018).

Literature has mainly focused on recognizing a range of savings restrictions, such as lack of financial knowledge limited access to financial resources, and behavioural frictions, such as time-inconsistent habits (Avdeenko, Bohne, & Frölich 2019).Majority of micro and small business owners often fail to save, even if they have surplus perhaps because of knowledge gaps and behavioral biases. This has consequently led to the closure of the majority of these small businesses that significantly contribute to a country's GDP (Abebe *et al.,* 2016). This collapse is evidenced by the annual business failure rate that currently stands between 30- 50%, attributable to the limited social network structure and the limited knowledge transfer of financial management matters among owners of MSEs (Kampumure, 2015). Over 90% of Micro and Small Enterprises (MSEs) collapse in their first year of a start-up while over 50% close shop before they celebrate their second birthday. It is further claimed that 3 out of 5 of the MSEs fail within the first few months of operation and those that continue 80 per cent fail before the fifth year. This menace is accredited to the poor saving behavior of the small business owners that in turn blocks their ease of access to external finance thereby constraining their operations and growth (Arinaitwe & Mwesigwa, 2015).Furthermore, some Ugandan small business owners' awkward behavior of poor saving culture, financial indiscipline, lack of ambition and adherence to higher expectations, irresponsibility, laxity and laziness, and lack of imagination are some of the major factors impeding growth and creation of micro and small enterprises (Topa *et al . ,* 2018).

Saving behavior requires one to possess the vital skills which include the ability to conduct calculations while formulating a saving strategy (Lusardi & Mitchell, 2014). The comprehensive literature on financial literacy has been published in recent years where it is described as the ability to use financial information and skills to manage resources effectively that impact an individual's financial welfare. Financial literacy helps individuals make informed financial choices on matters related to risk control and financial well-being (Lajuni *et al.,* 2018). For anyone, FL is really important as it plays a critical role in achieving a successful life (Shim *et al.,* 2010).

Fang (2017) argues that financial literacy fosters behavior, although it alone does not guarantee the appropriate saving behavior. Despite countries' efforts in improving financial literacy, individuals 'saving behavior remains a nightmare (Morgan & Trinh, 2019). This is evidenced by the elevated rate of failure and stagnation of MSEs that are individually owned (Sharu & Guyo, 2015). Being an inherently challenging step, saving behavior is motivated strongly by the social relations. Social norms have been found to be strong motivators for behavioral change across a number of domains, leading some researchers to hypothesize that social norms could influence behavior in retirement savings, hence considering social influence as a moderator (Greenberg & Hershfield 2019).An individual's saving conduct is justified as part of a society's social environment and should be successful, thus boosting economic growth and development. To achieve the right behavior in saving it is necessary to look at the social context in which the individual resides. Social influence (SI) is a significant direct predictor of saving behavior among Ugandans (Homan & Kramer, 2016). SI includes the effect of actions of others, based on the current social environment. Social influence includes an individual or community using social force to alter, in a particular way, the disposition or actions of certain individuals or groups (Franzoi, 2006). It is therefore on this basis that the need to examine the moderating effect of social influence on the relationship between financial literacy and saving behavior was necessary.

This article has three specific objectives;

i. To determine the direct effect of financial literacy on saving behavior among micro and small enterprise owners in Kampala, Uganda.
ii. To determine the direct effect of social influence on saving behavior among micro and small enterprise owners in Kampala, Uganda.
iii. To establish the moderating effect of social influence on the relationship between Social financial literacy and saving behavior among the micro and small enterprise owners in Kampala, Uganda.

Section 2 considers the theories on which the study is anchored along with the moderating role of social influence. Section 3 describes the current study, 4 research methodology, 5 looks at the statistical analysis, Section 6 reports on findings, while section 7 entails discussions and section 8 on conclusion.

## 2. Theoretical and literature review

### *2.1 Social Cognitive Theory*

Bandura's Social Cognitive Theory is one of the most important and widely accepted theories in the field of social psychology (Bandura, 2005) and has extended its influence to several fields, including Behavioral Finance. This theory emphasizes the ongoing reciprocal relationship between individual behavioral factors (cognitive) and environmental influences in understanding the process of social cognitive learning (Bandura, 1989). Thus, learning in this theory is more focused on observational learning (Bandura, 1989, 2002, 2009). Observational learning (modelling) comprises of four interrelated components: attentional processes, retention procedures, reproduction procedures and motivational processes.

Bandura's theory (1977) social cognitive theory postulates that learning is a process that takes place in a social text. The theory asserts that learning is a vicarious process where people learn implicitly alongside explicitly. Individuals can learn for example by way of observing others and not only from direct instructions provided. The same was asserted by Okello *et al.,* (2016) that people majorly learn by witnessing others. Both the implicit and explicit learning influence financial behavior though is more prevalent with implicit learning (Shim et al., 2009).

The original social cognitive theory specifies that behaviors of individuals are derived from the modelling process (Bandura 2014). The theory further postulates that the immediate social context where one resides has an impact on the individual's behaviors and actions as it models the individual in a particular direction to fit in that social environment. It emphasizes that people learn by observing other people (models) whom they believe are credible and knowledgeable within the social structure. In this case, an individual attached to a particular group is compelled to observe and emulate the behaviors of others in that group given the need to be attached to others (Bandura, 1977). An individual's social context comprises of family, friends, neighborhood, and mass media that exert the social pressure, and social norms from which an individual could learn (Wills, 2015).

Social cognitive theory relies on tridaic reciprocal causation. This theory suggests that people are motivated not by inner forces, but by external factors. This model suggests that human nature can be explained by the triad of interpersonal relationships, personal and environmental influences. This is at times known as reciprocal determinism. Environmental factors reflect circumstances and an atmosphere in which action is preformed, while individual factors include impulses, desires, traits, and other specific motivating powers. Certain factors that may be involved in the behavioral change process include self-efficacy, expectations of outcomes, self-control, motivation, emotional management and observational learning (Lown, Kim, Gutter, & Hunt, 2015).

There is no role in this theory of attitude and intention formation. This shows that people can act as they learn from the attitudes and experiences of others. The learning environment may include friends, neighbors and media results. Bandura (1999) also introduces the inborn skill of individuals that also affect human behavior. According to him, cognitive effects, i.e. awareness and abilities, are responsible for changing human behavior. This theory is more applicable in financial behavior, particularly for micro and small business owners, because most of the participants learn their financial behavior from their families, peers, the community, society and institutions. The theory points out that relational learning is based on psychological, peer-reciprocal, environmental and socio-economic contexts (Chaulagain, 2019).

The Social Cognitive theory is based on four main foundations that include: Symbolizing capability: This is one's ability to understand and utilize symbols that help to store, process and transform observed experiences into cognitive models that guide them in future actions and decisions. Self-regulation Capacity that includes an individual's ability to motivate himself or herself to accomplish certain goals by determining his or her own actions and responding accordingly. In this way, behavior is accomplished by self-regulation and self-direction. The self-reflective capacity that involves a process of thought verification, where individuals are able to perform a self-check to ensure that their thinking is correct. The theory also calls for vicarious capacity where individuals have the ability to adapt skills and knowledge to form information communicated through a wide range of mediums. Through observing vicariate the actions and consequences of others, individuals are able to gain insights into their own behaviors (Bandura, 1994).

In this study, the Social Cognitive Theory focuses on all the study variables of Social Influence, Financial Literacy and Saving Behavior. Social cognitive theory suggests that interaction between observations of others, the environment, one's own behavior, and one's cognitive ability influences one's behavior (Bandura 1977, 1986, 1989, 1997).The learning environment includes family friends, neighbors, media (Chaulagain, 2017).

From a family viewpoint, much of the financial socialization that happens in families comes from observation and other indirect influences. Observation has proved to be an effective way of learning in social systems such as the family. Parents are the first modellers, as they should be exemplary, and who in turn foster the saving behavior of their children. Parents are seen to be the first teachers of their children's saving behaviors as they learn and get acquainted with the right behaviors from childhood until adulthood (Jamal *et al.,* 2015).

Peer influence to include friends and colleagues is second in influencing an individual's behavior. Given the need and pressure to be associated with a particular group one is compelled to act and conform to what the group expects of them, hence being modelled to fit within the group. In most cases, the individual's actions are just compelled to be identified with a particular group as such is associated with satisfaction among the members of the group (Bandura 2014).

As far as financial literacy is concerned, the theory shows that literacy alone can also affect financial behavior (Chaulagain, 2017). Bandura (1999; Chaulagain, 2017) also introduce the inborn skill of individuals that affect human behavior. According to them, cognitive effects, i.e. knowledge and skill, are responsible for changing human behavior. Sandler (2000), argued the same thing about the role of cognitive thinking in managing the financial actions of individuals. The theory posits that it is the experience one possess about financial matters that compels one to behave accordingly given their cognitive interpretation of their experiences. It is this experience, positive or negative that shapes one to know what to do and what not to do in handling their finances (Ameliawati & Setiyani, 2018). This theory is the single most important element in fostering behavioral change (Bandura, 1990). This can, therefore, be used to help people improve their financial behavior one of which is saving.

### *2.2 Social Capital Theory*

Putman suggested the notion of social capital in 1995. Social capital is the ability of actors to benefit from their social networks, their private interactions and the quality of their connections. This theory is based on three assumptions: the more networking, the greater the social contact, the greater the importance of the rule of inclusion and the greater the social capital, the better funding for problem solutions to be organized (Turyahikayo, 2015). According to Bourdieu, social capital is based on the guiding principle that the position of an individual within a particular group offers certain advantages that operate to their benefit. The Social Capital Theory (SCT) emphasizes that people build relationship in their networks for mutual benefits (Duarte & Oliveira, 2017).People interact in groups with the aim of reciprocity and trust expectations which interactions yield mutual benefits to the members of the social context. According to Cummings (2004), SCT lies on the premise that ones' connections can help them.

According to (Rios-aguilar & Deil-amen, 2012), Social capital comprises of three constructs which include: networks, norms and trust that enable people during their interaction in pursuit of their common objectives. However, Okayasu *et al.* (2010), grouped social capital into trust, networks and reciprocity. Social capital is divided into two categories, bonding and bridging social capital, where bonding social capital relates to linkages within a group or community defined by a high degree of similarity in demographic characteristics, attitudes, and available information and resources, whereas bridging social capital is a link between individuals who are different in respect to socioeconomic and other characteristics (Chen, *et al.*, 2009).

Social Influence, a moderating variable in the study is underpinned by the Social Capital Theory which relates to economic benefits, trust, network size and diversity among others factors within a community (Duarte & Oliveira, 2017). The social networks that comprise of family, teachers, mass media, peers and other close relationships play a vital role in shaping individuals eventual behaviors (Rios-aguilar & Deil-amen, 2012). Quality family relations, for instance, have been characterized by warmth trust mutual reciprocity and resilience. By actually engaging with others in family roles, family members become financially socialized. For example, children learn the value that parents assign to specific material items, learn family financial norms, and start to predict future financial roles as they mature. These social networks that connect people are a source of shared norms, values and beliefs that inform attitudes which convey specific values causing favorable opinions towards a particular behavior (Palamida, 2016).

An affirmative attitude is more articulated through intentions or the resultant behavior which when supported by an individual's close social ties, suggest attitudes and norms influence behavior through their impact on intentions. To guarantee appropriateness in their resultant behaviors, sharing and spending time with family is utmost (Mohammed *et al.,* 2018). Huat and Geetha (2010) posit that social capital is vital at all stages of life as it impacts on one's future well-being. This was further affirmed by Brounen *et al.* (2016) that believed that when individuals are exposed through literacy and social factors, their social capital is boosted to ensure their success in life.

Okello *et al.* (2016) claim that social capital can positively influence the education outcomes which in turn affect economic development outcomes. Thus, the social capital of relationships is a resource that can facilitate access to other resources by individuals or groups for a specific purpose (Balatti, 2007). The enforcement of the social norms within the group fosters compliance among the members hence requiring them to behave accordingly (Duarte & Oliveira, 2017). As far as this study is concerned, both bridging and bonding are appropriate, since they both represent the importance of social capital and offer diverse information and useful resources by enhancing internal organizational trust through the bonding of actors and by bridging external networks to provide resources. (Forsell *et al.,* 2018).

Social capital, being multidimensional, happens at both the individual and the organizational levels. The notion of social capital involves obligations, expectations and trustworthiness of structures; data channels; norms and efficient sanctions, all of which have a beneficial effect on the development of micro and small businesses. Social networks offered by extended family, community or organizational connections are theorized to complement the reciprocity of the impacts of education, experience and financial capital. Micro and small businesses that create and sustain powerful social networks are likely to increase finance to finance their activities, and the opposite is true for micro and small businesses that do not have social network programs (Turyahikayo, 2015).

### 2.3 *Moderating role of Social Influence*

Social Influence is based on human interfaces in a social context (Forsell *et al.,* 2018). It is these human relationships that provide direction and approval to group members, hence their acute role in influencing individual conduct (Palamida, 2016). Social influence takes on many different forms as seen in the cycle of conformity, socialization, peer pressure, persuasion, leadership, loyalty, and social change.SI operates at mainly three separate levels of compliance, identification, and internalization. Social influence plays an important role in the everyday lives of people as they live in a very dynamic social world in which social information constantly influences their understanding and decision-making. SI is known to be a psychological phenomenon from which individuals seek to generate a favorable reaction in others with the purpose of influencing their views, thus making SI a central variable that is positively related to a number of variables that are linked to the behavior making it a potential moderator (Arrieta, Peña, & Medina, C. M. 2019). In fact, SI has the power to affect all people's decisions, as it shapes the values and behaviors of an individual, thereby changing the mindset of individuals even when making moral choices.

SI has the potential to change the thoughts, feelings, attitudes, emotions, and behaviors of an individual due to interactions with another individual or group of individuals, thus qualifying as a moderator given its possibility of affecting the direction and/or strength of the relationship between the independent variable and the dependent variable (Sedera, Lokuge, Atapattu, & Gretzel 2017). In addition, the moderating role of social influence on individual saving behavior has not been studied.

### *2.4 The current study*

The study's principal purposes were threefold. First, we sought to examine whether financial literacy predicts saving behavior. Secondly, it also examined whether social influence can predict saving behavior and, lastly, tested the moderating role of social influence in the relationship between financial literacy and saving behavior. The study's analytical model is illustrated in figure 1. This study suggests the following hypotheses, based on the literature review:

H1: Financial literacy predicts saving behavior among micro and small enterprise owners in Kampala, Uganda.

H2: Social influence predicts saving behavior among micro and small enterprise owners in Kampala, Uganda

H3: Social influence moderates the relationship between financial literacy and saving behavior among micro and small enterprise owners in Kampala, Uganda.

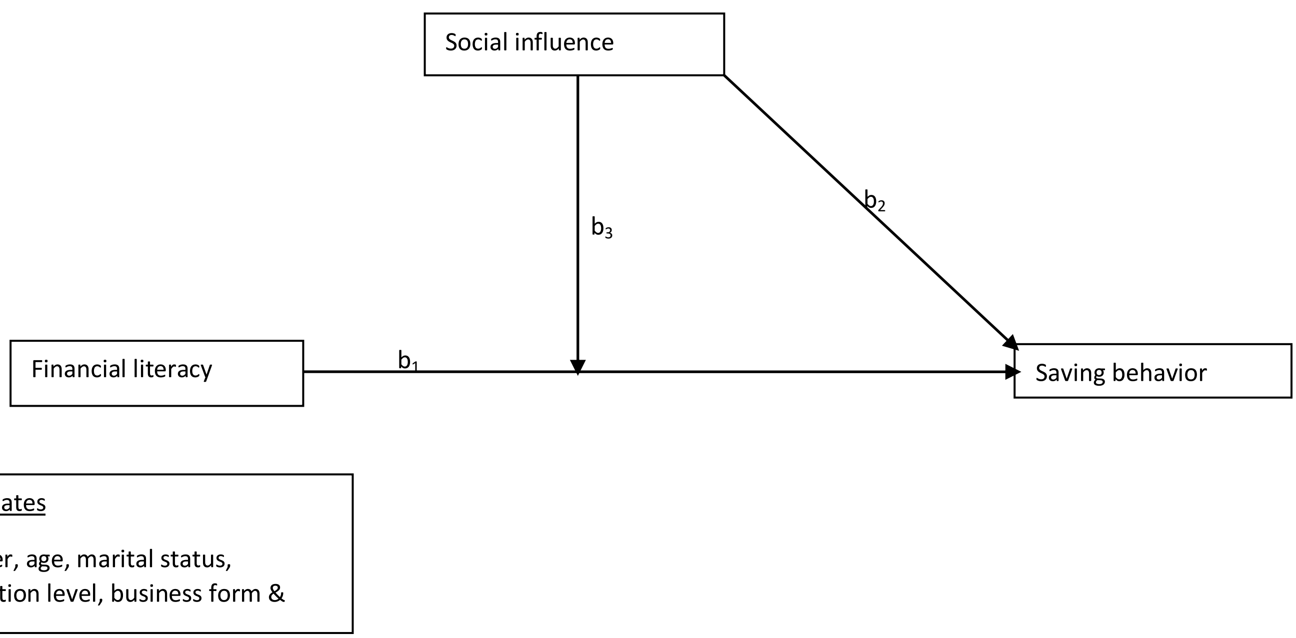



***Figure 1. Conceptual model. Source: Hayes (2013, 2018) Model 1.***

## 3. Methodology design and participants

The study adopted an explanatory research design along with cluster and systematic simple random sampling technique in collecting primary data. Before administering the questionnaire, permission was sought from the Uganda National Council for Science and Technology to undertake research through a letter so as to gain access to the selected enterprises. The researcher introduced to the respondents the purpose of the study, being academic and requested a few minutes of their time to fill the survey instrument. Respondents were informed that their participation in the study was voluntary and their protection was guaranteed through anonymity. The survey instrument was taken right after completion.

Data were collected using a closed-ended self-administered questionnaire from a sample size of 395 micro and small business owners in the six administrative units of Kampala, Uganda. The research was confined to licensed micro and small enterprises in Kampala, Uganda's Central Business District (CBD). Findings reveal a response rate of 94 % which, as recommended by most researchers, is above the appropriate 50% threshold. Results show 55.9% of the respondents were male and 44.1% were female. The majority of respondents were those with an age range of 31-35 (N = 150) with 38% and those with an age range of 15-20 (N = 2) with 0.5% represented the least. Furthermore, demographic statistics reveal that most respondents were married (N=290) with 73.4%, while those who lost their spouses were the least (N=5) with 1.3%.177(44.8%) of respondents had completed secondary education, and 7(1.8%) had pursued postgraduate education. Majority of the respondents were sole owners of their businesses (N=186) with 47.1 % while those with other businesses only represented by only 2.0% (N=8). Income level findings indicated that the majority of respondents earned income in the range of 400,001-700,000 Ugx were 181 with 45.8%, and those who earned less than 200,000Ugx were 6 with 1.5%.

### 3.1 *Measures*

#### *3.11 Saving Behavior*

With respect to this study, Saving Behavior was the Dependent Variable and researcher adopted and modified measures by Chowa & Despard (2014); Dangol & Maharjan, (2018);Ariffin *et al.* (2017) and Delafooz *et al.*(2011).The 7-likert scale was used to rate evaluate the respondents ‘statements that that best described their Saving Behavior. The Dependent Variable was measured on the basis of 9 items with a likert scale that ranged from 7- Strongly Agree signifying the respondent's ability to practice appropriate Saving Behavior to 1- Strongly Disagree indicating a poor Saving Behavior.

#### *3.1.2 Social Influence*

Social influence is the degree to which the people or individuals involved accept or do not approve the performance of a particular behavior. In research, SI is usually measured by asking participants to what extent they think their closest ones – family members, friends, or colleagues – would encourage them to engage in a particular behavior (Dinc & Budic 2016).To suit the current study, social influence was measured by adopting and modifying the measurements items by Dangol & Maharjan (2018); Hanachi (2005); Dinc & Budic (2016) and Kim *et al.* (2019).To ascertain this, the researcher made use of the 7-Likert scale ranging from 7- Strongly Agree representing a high impact of Social Influence on the respondent to 1- Strongly Disagree indicating Social Influence low impact on the respondent. The measurement of Social Influence was based on 10 measurement items.

#### *3.1.3 Financial Literacy*

The mediator variable is the variable that mediates the relationship between the Dependent variable and the Independent variable. The Intervening Variable in this research is Financial Literacy. Arnone (2004) describes Financial Literacy as the skills one obtains from education that shape them to behave properly for better financial wellbeing. It requires one to apprehend and grasp the use of financial information to enable one to manage their finances daily. This was measured by adopting and modifying measures from Sebstad *et al.* (2006); Schagen and Lines (1996); Atkinson & Messy (2012) and Sulong *et al.* (2017); Eleven (11) items were adapted in measuring Financial Literacy utilizing the 7-Likert scale ranging from 7- Strongly Agree signifying the respondent's possession of high Financial Literacy to 1- Strongly Disagree indicating low Financial Literacy level. Some of the questions included: I have knowledge about managing personal finances, I have a better understanding of how to manage my credit use and I have a very clear idea of my future financial needs among others

#### *3.1.4 Covariates*

Finally, the study had four control variables: age, gender, marital status and education. Age was measured using seven categories and coded as; (1), 15 – 20 years (2), 21 – 25 years (3) 26 – 30 years (4) 31-35 (5)36-40 (6) 41-45 and (7) above45. Gender was coded where 1 if male and 2 if female. The marital status was measured where 1 indicated married and 2 indicated unmarried 3 if one was divorced,4 in case one was a widow and 5 for one that was a widower. Level of education was measured by six categories that ranged from primary level, secondary level, tertiary level, undergraduate, postgraduate and none. The choice of age, gender, marital status and education level as control variables were based on past studies of Delafrooz & Paim, (2011); Satsios & Bassim, (2018); Kostakis,(2012).

## 4. Results and Discussion

The aim of this study was to determine whether; financial literacy predicts saving behavior, to establish whether social influence predicts saving behavior and lastly to explore the moderating effect of social influence in the relationship between financial literacy and saving behavior among micro and small enterprise owners in Kampala, Uganda.

### *4.1 Preliminary analyses*

Table 1 indicates the means, standard deviations, and reliability and correlation results for all variables of the study. The findings indicate that social influence has the highest mean of 6.2223 and standard deviation of .53869 while financial literacy has the least mean of 5.7316 and a standard deviation of .60610.Furthermore, the scale reliability was in the accepted range as the Cronbach' Alpha was above .7 for the case of saving behavior and financial literacy and was slightly below .7 for social influence. Results of correlation shows that all variables were positively associated with saving behavior with social influence having the highest relationship with r =.550, p < .01 and financial literacy with r =.389, p < .01.

**Table 1: Mean, Standard deviation, Reliability and Correlation**

| Variable(N=395) | M | SD(σ) | Reliability((α) | 1 | 2 |
|---|---|---|---|---|---|
| Saving behavior (1) | 5.815 | .587 | .760 | | |
| Social influence (2) | 6.222 | .539 | .694 | .550** | |
| Financial literacy (3) | 5.732 | .606 | .759 | .389** | .247** |

**. Correlation is significant at the 0.01 level (2-tailed).

Before carrying out regression analysis items of the instrument were examined by principal components extraction with varimax rotation to check for construct validity. The Kaiser–Meyer–Olkin (KMO) measure of sampling adequacy was used to compare the magnitude of the observed correlations coefficients. KMO values below .5 do not permit the use of factor analysis. Thirty questions relating to the variables of the study were factor analyzed using principal component analysis with Varimax rotation (Table 2). The analysis yielded three factors explaining a total of 46.65% of the variance for the entire set of variables.

Factor one was labeled 'Saving Behavior' with loading of only four items. This factor explained the variance of 16.06%. The second factor extracted from the study was' financial literacy with loading of six items. The overall variation that this factor explained was 15.75%. Six items loaded as factor three for social influence. This factor explained the variance of 14.841%. The results of the factor analysis indicate a Kaiser – Meyer – Olkin sampling adequacy (KMO) value of. .724, Bartlett's sphericity test results showing a Chi-Square of 1420.758, df =120, which was significant at.000. Since the KMO is greater than .5 and Bartlett's test has a significant Chi-square, the results provided evidence of factor analysis suitability

**Table 2: Factor analysis**

| Factors | 1 | 2 | 3 |
|---|---|---|---|
| **Saving behavior** | | | |
| When I get money, I always save part of it | .853 | | |
| I always put money aside on a regular basis for the future | .752 | | |
| I save to achieve certain goals | .738 | | |
| I stick and follow the plan I have on how to use my money | .648 | | |
| **Financial literacy** | | | |
| I have better understanding of how to manage my credit use | | .715 | |
| I have knowledge about managing personal finances | | .684 | |
| I have adequate skills of managing my finances | | .637 | |
| I have the ability to manage my funds very well | | .616 | |
| I have the ability to prepare my own weekly(monthly) budget | | .563 | |

| | | | |
|---|---|---|---|
| I have the ability to maintain my financial records for my income and expenditure | | .558 | |
| **Social influence** | | | |
| I feel under social pressure to put money aside for the future | | | .661 |
| If I decided to save, my colleagues would approve to that decision | | | .655 |
| I always get involved in financial management activities with people who are close to me | | | .642 |
| I always compare the amount of saving and spending with my friends | | | .626 |
| My closest friends approval of what I do is important to me | | | .620 |
| People who are important to me think that I should save | | | .511 |
| **Eigen value** | **2.569** | **2.52** | **2.375** |
| **Variance (%)** | **16.06** | **15.75** | **14.841** |
| **Cumulative Variance (%)** | **16.06** | **31.8** | **46.65** |

*KMO=.724, Bartlett's test of sphericity=1420.758, df=120, sig=.000*

*Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. Rotation converged in 4 iterations.*

**Testing for moderation**

**Table 3: Moderation effect**

| R | R-SQ | MSE | F | df1 | df2 | P |
|---|---|---|---|---|---|---|
| 0.626 | 0.392 | 0.211 | 84.043 | 3.000 | 391.000 | 0.000 |

| | coeff | se | t | p | LLCI | ULCI |
|---|---|---|---|---|---|---|
| Constant | -6.139 | 1.958 | -3.135 | .002 | -9.989 | -2.290 |
| Social influence | 1.711 | .322 | 5.311 | .000 | 1.078 | 2.345 |
| Financial literacy | 1.532 | .344 | 4.449 | .000 | 0.855 | 2.209 |
| Interaction term | -.209 | .056 | -3.713 | .000 | -.320 | -.098 |

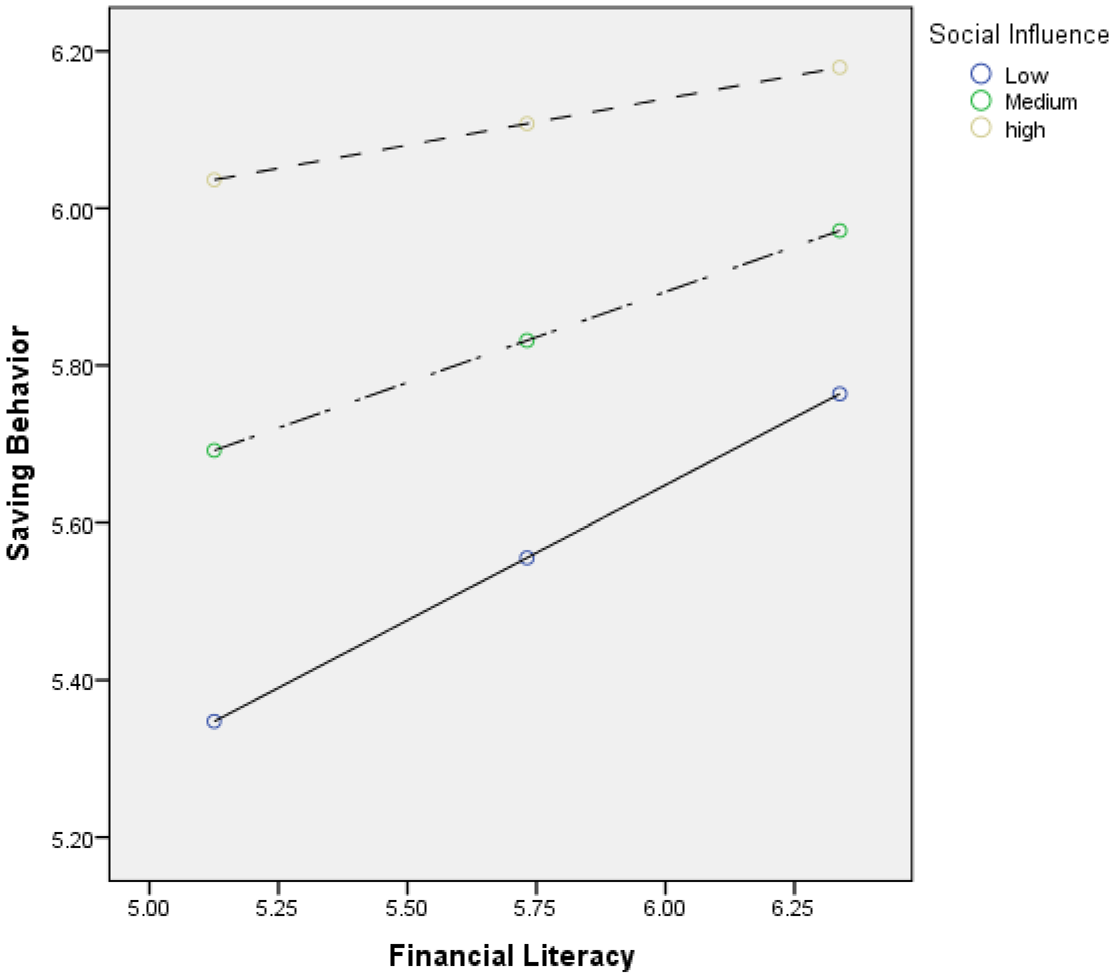
**Table 4: test of highest order unconditional interaction**

| | R-SQ | F | df1 | df2 | P |
|---|---|---|---|---|---|
| Interaction term | .021 | 13.787 | 1.000 | 391.000 | .000 |

Results in Table 3 show the study's conditional process analysis using Hayes (2018) process macro v3.2 (Model 1). We tested how social influence moderates the path from financial literacy to saving behavior (shown in Figure 1 as direction '$b_1$'). The model produced $R^2$ of .392 indicating that it accounted for 39.2% of the variance. The findings further indicated that both financial literacy and social influence are significant predictors of saving behavior, financial literacy with coeff. = 1.532, CI =.855, 2.209 and social influence with coeff. = 1.6948, CI = 1.078, 2.345 thereby supporting both hypothesis one and hypothesis two. Results further indicate a negative coefficient (-.209), *p*=.0000<0.05, CI = (-.320, -.098) when it comes to the interaction.

At low values of the moderation (5.684) the effect of X on Y is .3434 and is significant at (*p*=.0000, CI=.255, .432).While at the moderate values of the moderation (6.222), the effect of X on Y is .231 and is significant at( p=0.0000, CI=.152, .310).Whereas at the high values of the moderation (6.761), the effect of X on Y is .118 and is significant at (p=.033,CI=-.009,.227).

Modgraph




The above modgraph indicates that at low levels of social influence, the slope is less steep than at low levels of social influence, In other words, at low levels of social influence, the slope is steeper meaning that the effect of financial literacy on saving behavior is higher than at lower levels of social influence and lower at higher levels of social influence.

### *4.2 Discussion*

**Effect of financial literacy on savings behavior among micro and small enterprise owners**

The results of this research show that financial literacy positively impacts on saving behavior. This is consistent with other studies by Awais *et al.* (2016); Kubilay & Bayrakdaroglu (2016) which suggested that financial literacy helps individuals make good personal financial decisions, such as investment and saving. Furthermore, the results of the research are in line with Bandura's (1986) social cognitive theory, which indicates that people benefit from each other by observing, imitating and modeling social interaction in social structures. The theory of social learning underlines that people learn by observing other individuals (models) that they consider to be trustworthy and competent. By doing so, they are able to develop the necessary knowledge and skills that transform their behavior and comprehension to solve daily challenges (Okello *et al.,* 2016). In terms of the theory of social capital, networks embedded in the social capital of relationships are a resource that can promote individuals or groups' access to other resources for a specific purpose (Balatti, 2007). The resources available within a network are simply a feature of the resources provided to it by its participants and contributed by them. Such resources can include knowledge, skills, and other networking connections, financial and physical resources.

**Effect of social influence and savings behavior**

Also, social interaction strongly affects savings behavior, as emphasized by Jamal *et al.* (2015) studies; Otto (2009), where both families and peers had a positive effect on the behaviors of children and friends, thereby motivating them to save although parents are more influential at the information-gathering stage while peers become more influential at the product evaluation stage. Firmansyah (2014) reveals children to inherit the attitude and behavior of their parents as this can predict the type of financial decisions and management that they make in the future. Money values are passed down from parents to children through direct and indirect messages whereas Alwi *et al.* (2015) indicates that when making choices, people are affected by peer pressure as an individual's behavior is acquired from direct and indirect interaction with their friends. Ogonowski *et al.* (2014) agrees that social influence with closer peers has the most important influence in forming a bad or good attitude of individuals in terms of physical and social distance. However the findings of this study stretch somewhat from the norm, whereby social influence from previous studies indicates a positive effect on saving behavior, however in this study, and extreme values of social influence are dangerous as one's financial decisions may be seen taking the wrong direction from the expected. This is in line with studies by Karlan, Ratan, & Zinman(2014); Ky, Rugemintwari, & Sauviat (2018) where a negative effect of social influence on saving behavior was established as the majority of poor people in developing economies use high-risk , high-cost informal environments (social networks) that lead to low savings in contrast to economies without behavioral friction. In addition, as the individual is under social pressure to meet the different group expectations, they are torn apart on whose expectations to abide to thereby becoming confused with which course of action to take hence compromising their saving ability.

**Moderating effect of social influence on the relationship between financial literacy and saving behavior**

This study further reveals that the link between financial literacy and savings behavior to be moderated by social influence. Nonetheless, our results show that social influence needs to be either low or moderate to improve savings behavior. With the high levels of social influence, the effect of financial literacy on saving behavior dampens. Our findings therefore provide new insights in the literature.

## 5. Conclusion

The present study provides an important research model in understanding the role of financial literacy, social influence and savings behavior among micro and small enterprise owners in Kampala, Uganda. The study confirms that social influence moderates the relationship between financial literacy and savings behavior of individuals. The social influence, however, should be either low or moderate to have a positive impact on saving behavior. Extreme levels of social influence are not seen as having a constructive impact on savings behavior, but instead as a threat. These results will help individuals regulate levels of social influence because savings will not realized at extreme levels of social impact. Much as social capital is essential, individuals don't need too much of it as it can deter the predicted outcome (saving).

**Theoretical and managerial implications**

This research supports the social cognitive theory through the direct influences of financial literacy and social influence to have a significant impact on individual savings behavior, which can be achieved by observational learning. This adds to the current literature as it further reinforces what other researchers have already shown that financial literacy and social influence have a significant direct effect individual's saving actions. Additionally, the study provides some new insight that social impact can improve the association between financial literacy and individual saving behavior. Third, the research applies to both social cognitive and social capital models, where social power can be used as a moderator to produce a desired outcome. Specifically with the theory of social capital, it applies to the philosophy of the value of social capital, but this must be controlled in order to produce the desirable outcome.

The study's results have both policy and managerial implications for the business owners. First, the study findings are relevant primarily to government policy makers. It is recommended that the ruling government plays its part in fostering financial literacy among business owners with the goal of highlighting the value of financial literacy and providing information on how to start and continue the financial habits within society. In fact, it is strongly recommended that the government introduce the financial literacy initiatives in all regions of Uganda. Additionally, this study also suggests that the government look at offering more financial and educational courses in Uganda, especially to business communities and businessmen, with a view to learning how to run their businesses and making their financial health more accountable (Jamal *et al.,* 2015). For the managers and owners of these businesses, they should encourage interaction and contact with other business managers and owners, meet regularly and exchange experiences about how to save. Furthermore, business managers / owners are urged to be part of a network that "does it well" and helps each other to save money. In addition the managers/owners of the businesses are encouraged to be part of a network that are "doing it well' encouraging each other to save.

**Limitations and recommendations for further studies**

This study was mainly done in Kampala, Central Business District of Uganda. Due to the limited geographical scope and target population, this study should be replicated in other regions of the country or countries with large target population as it might present different results. Secondly, the study used a closed-ended questionnaire in collecting quantitative data. Further studies should be done using mixed methods as these may reveal other issues that influence individual's savings behavior. In addition, the study could be purely qualitative hence one able to obtain detailed information surrounding savings behavior. Finally, this study looks at the saving actions of a person at one point in time (cross-sectional); it recommends a longitudinal study to have more reliable data.

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