



THE EFFECT OF VALUE ADDED SERVICES ON THE FINANCIAL PERFORMANCE OF THE MOBILE MERCHANT SERVICES PLATFORM ENTERPRISES IN NAKURU, KENYA

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Abstract

Mobile money has become a very prominent payment used by many enterprises in Kenya whose significance has not received the necessary research investigation. The aim of this study was to find out the effect of Value Added Services available on the mobile money platform to financial performance of small and medium enterprises. The study adopted explanatory research design. Stratified sampling technique used to sample SMEs in Nakuru town. The study established no significant linear relationship between value added services of mobile money merchant services and financial performance of small and medium enterprises in Nakuru Town, ($r=0.069$, $p>0.422$). Thus the hypothesis H_0 that value added services of mobile money merchant services does not significantly affect financial performance of small and medium enterprises in Nakuru Town was accepted. Based on the findings, recommendations were made.

Keywords: Mobile merchant services, Value Chain, Small and Medium Enterprises, Financial Performance



INTRODUCTION

Mobile money transfer service refers to the service which allows users to transfer money via mobile phone text messaging. Mobile telephones traditionally offered voice communication but have continued to evolve to become all-purpose tools with value added services such as mobile money transfers, Mobile money transfer services, Internet and data services which enhances the way small and medium enterprises (SMES) conduct their business operations. Mobile telephones are also cheaper and more portable than computers which make their adoption much easier. This has successively reduced social-economic disparities within Kenyan small and medium enterprises (SMES) as well as closing the existing digital divide between the rural and urban small and medium enterprises (SMES). Most SMEs entrepreneurs had to travel or use public transport systems to send and exchange documents, access banking facilities or even transact their payments. This is not the case today, as they can e-mail the documents, pay for goods and services through mobile money transfers, use Mobile money transfer services and if one has a technologically advanced telephone, it is now possible to carry out the required tasks at any time and at any place.

Mobile money has been highly used in Kenya but in recent times it has started being used globally. Money can now be sent across countries through collaborations between banks and mobile money services providers. Many countries have also adopted the use of mobile money. Countries like the United states have adopted mobile money platforms which have been linked to mobile banking to make easier transactions. Canada is also a country that has adopted the use of mobile money. Money exchange between people in different countries has also been made easier through mobile money.

Globally SME sector has been reporting difficulties in access to finance (Bebezug, 2004, Slotty, 2009, Balling et al, 2009, Irwing & Scott, 2010, Yongqian et al 2012). Access to external finance to SMEs has become more costly and troublesome while their accessibility has sharply declined. SMEs financial constraints limit their investment opportunity and stagnant growth. Access to finance is widely perceived to an essential factor for firms, and especially SMEs to maintain their daily business operation as well as to achieve long term investment opportunities and development targets. Presence of general limitations on access to capital markets, many east African firms heavily rely on the banking sector for credit. Therefore, a well-functioning banking sector plays an important role in channeling resources to the best firms and investment ventures. Financing constraint crucially limit firms growth, availability of productive resources resulting to sluggish of a sector which might pose threat to the sectors contribution to the economy.

Mobile Money Transfer Providers are the small business or individuals who have existing businesses and incorporate the Mobile Money Transfer service to their business and act as banking agents for the mobile network operators. The current mobile money providers in Kenya are Safaricom's, *M-Pesa*, which was introduced in March 2007; Airtel's Airtel-Money (Formally Zain's ZAP) which was introduced in January 2010; YU-Cash started in December 2009 by Essar and Orange (formally Telkom and Posta) Orange Money launched in November 2010 by Telkom Kenya. *M-Pesa* is by far the largest accounting for more than 90% of mobile money subscriptions.

MMT services offer secure and convenient means for banked and unbanked people to send and receive money with mobile phones at home and abroad; anywhere at any time. It allows customers to use their phone like a bank account and a debit card. It contains features such as mobile wallet, mobile transfer, airtime transfers and mobile banking. Mobile wallet enables the subscriber to receive, store, send or pay money anywhere any time. Money transfer options means that one can send money from their mobile money account to a different subscriber anywhere anytime. Mobile banking works closely with banks to provide banking services to subscribers of mobile money.

Use of mobile phone for financial transaction started with introduction of prepaid mobile phone services that targeted low income earners who desired more anonymity than post-paid phone subscribers. Unlike post-paid mobile phone services, prepaid subscribers could simply walk to a shop, purchase small denomination airtime, key in the details and make their desired call. This segment of mobile phone users soon became large enough to be a target for micro-payment features since majority had little or absolutely no interaction with banks. The main reason this segment came into focus and the need to develop financial services that target them was outlined by Wishart (2006) as part of the drive towards a cashless transaction environment that presents advantages such as: less fraud, reduction of untraceable criminal activities, and minimal cash handling costs, and less reliance on cash-in-hand when a need arose. MMT is still at an early stage of development in Kenya but ahead of the world: it is designed to bring the economic advantages of having a savings and money transfer facility to those with small, irregular or cyclical incomes (Pulver, 2009).

Sending or receiving money for either payment of salaries, settlement of business transactions, payment of school fees, or for family support is a common phenomenon for both businesses and individuals. It requires efficient, reliable and affordable money transfer services whereby money can be deposited in one location and withdrawn in another in both urban and rural areas (Kim, Mirsobit and Lee, 2010). Structural weaknesses in the formal financial industry in Kenya, however, limit the access to money transfer services, especially in rural areas and for

low-income people (Hughes and Lonie, 2007). This is because banks are concentrated mainly in urban centers and have conditions that constitute barriers to the use of their services (Biljon and Kotzé, 2008).

The cost of transfer, usually charged as a percent of the amount sent, is considered expensive for small amounts for both local and international transfers (Au and Kauffman, 2008). The informal systems of money transfer such as individuals carrying money on themselves or sending drivers and conductors are susceptible to highway robberies and thefts (Kim *et al.*, 2010 and Hughes and Lonie, 2007). Sander (2003) also noted that money sent through friends and relatives is sometimes misused and at times never reaches its destination while money sent through letters and parcels of the courier companies may be stolen. Other challenges associated with the formal and semi-formal systems, include delays and long queues, network limitations, insolvency of branches, unreliable communication and misdirected parcels (Au and Kauffman, 2008). This situation has changed dramatically in the last few years with the introduction of mobile phone-based money transfer (MMT) services. The introduction of prepaid cards of low denominations and the fallen prices of mobile handsets have led to a rapid spread of mobile phones in the developing countries (Orozco, 2003). This has opened up diverse opportunities for it to be used beyond voice communication. At the centre of this experience is money transfer.

Statement of the Problem

The emergence of Mobile Money Transfer has received overwhelming uptake in Kenya since its introduction in 2007. This success is attributed to the service being affordable and accessible (Mbogo, 2010). Users today use their Mobile Money Accounts for savings, thus expanding financial inclusion for the unbanked (Njenga, 2009). It has also enabled the banked to avoid long queues at banks and broaden financial services by banking institutions. This technological invention has been considered easy to use yet efficient and reliable with the potential to extend financial services to the unbanked or those preferring cheaper financial services. As a result, majority of the micro business operators in Kenya have embraced its use in their daily business operations such as accounts payable settlement, accounts receivable settlements, mobile credit services, and m-commerce and e-commerce, among others.

Therefore the current study sought to find out whether mobile merchant value added services has affected the performance of Small and Medium Enterprises in Nakuru town. The study will be guided by the following objectives. The study therefore hypothesized that **HO** Value added services do not significantly affect financial performance of small and medium enterprises in Nakuru Town.

LITERATURE REVIEW

Theoretical Review

Technology Acceptance Model

Over the years TAM has been tested and applied in the prediction of future consumer behavior (Adams *et al.*, 1992; Chau and Hu, 2002; Davis and Venkatesh, (1996); Kwon & Chidambaram, (2000); Legris *et al*, 2003), among other places in the mobile services domain (Cheong & Park, 2005; Kwon and Chidambaram, 2000; Nysveen *et al*, 2005). The Technology Acceptance Model (TAM) is established on the premises that the constructs, perceived usefulness and perceived ease of use are fundamental determinants of system adoption and use (Davis, 1989). These two beliefs create a favorable disposition or intention toward using the IT that consequently affects its use. Perceived Usefulness (PU) is said to be the degree to which person thinks that using a particular system will enhance his or her performance.

Whereas the Perceived Ease of Use (PEOU) is the degree to which a person believes that using a particular system will be free of effort” (Davis, 1989). TAM has received praises from earlier researchers on its contribution towards our understanding into consumer behaviour. Lu *et al*, (2003) states that: “Throughout the years, TAM has received extensive empirical support through validations, applications and replications for its power to predict use of information systems”. Also, Legris *et al*, (2003) conclude that “TAM has proven to be a useful theoretical model in helping to understand and explain user behaviour in information system implementation”. The Technology Acceptance Model deals with the way people accept new technologies. Mobile money in itself is a technology that people have to accept and therefore this theory is relevant to the current study.

Innovation Diffusion Theory

Another theory which has received similar attention by scholars in explaining consumer behavior towards new technology is the Rogers’ Innovation Diffusion Theory (Rogers, 1995). Innovation is defined as “an idea, practice or object that is perceived as new by an individual or another unit of adoption”, while diffusion is “the process by which an innovation is communicated through certain channels over time among the members of a social system” (Rogers, 1995, p.10). By these definitions, innovation diffusion is achieved by how a social system accepts and begins to use (adopt) an idea or a technology. Roger further states that the following are the characteristics of any innovation: Relative Advantage: the degree to which the innovation is perceived as being better than the practice it supersedes; Compatibility: the extent to which adopting the innovation is compatible with what people do; Complexity: the degree to which an innovation is perceived as relatively difficult to understand and use; Trial ability: the

degree to which an innovation may be experimented with on a limited basis before making an adoption (or rejection) decision; and Observability: the degree to which the results of an innovation are visible to others (Rogers, 1995). This theory also seeks to explain consumer behavior towards technology which is the basis of the current study and therefore this theory is very relevant to the current study.

Empirical Review

Njenga (2009) states that although the mobile phone balances may seem low, the fact that there are balances proves that there is storage which can be perceived as acceptance of deposits. This is a significant indication of the high value placed on the convenience associated with the use of the mobile payment services. Omwansa (2009) states that a lost or stolen mobile phone does not mean catastrophe as no one can access an M-Pesa account without a correct personal identification number (PIN). He further explains that in a country where majority of people have no bank accounts, M-Pesa provides both convenience and safety. People walk around with their virtual money knowing they can withdraw cash any time at a minimal fee.

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Conceptual Framework

The conceptual framework for the study is presented in both the dependent and independent variables. The independent variable was value added services whereas the dependent variable was financial performance.

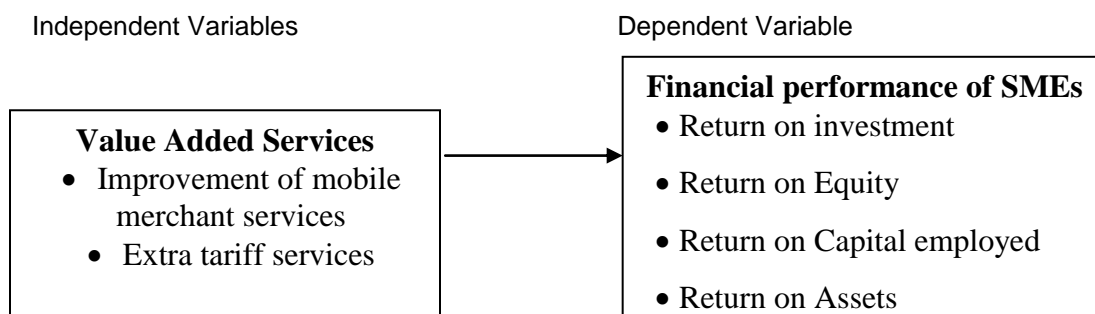


Figure 1: Conceptual Framework

METHODOLOGY

This study made use of explanatory and cross sectional research design. Copper and Schindler (2003) define research design as the blueprint for fulfilling objectives and answering questions targeting was proprietors of Small and Medium Enterprises (SMEs) operating in Nakuru town CBD. According to the Nakuru Municipal Council, the total number of licensed SMEs is 2,300 which formed the target population for the study. The population of the study was SMEs in the CBD according to the Nakuru County record of businesses (2018). Stratified random sampling method was applied to select the sample of the SMEs which was used to analyze the whole population of the study. Stratification was by area of operation and the type of business. Nakuru County is divided into constituencies which are later divided into wards. The current study focused on wards as businesses are registered using wards. Therefore a representative of each group was taken. Simple random sampling then be applied. The Nassiuma (2000) formula was employed to calculate the sample size to arrive at 221 SMEs from the target population. The study used structured questionnaire as the main data collection instrument. The questionnaire had key benefit of value added services including; the service being fast, the service being cheaper, the service being convenient and easy in terms of accounting, the service is safe and has improved service delivery.

FINDINGS AND DISCUSSIONS

Correlation of Mobile Merchant Services and Financial Performance

Table 1: Correlation of Mobile Merchant Services and Financial Performance

	Value addition	ROA1
Value addition	1	.069
		.422

*. Correlation is significant at the 0.05 level (2-tailed).

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

The objective of the study was to find out the effect of value added services on the mobile merchant services platform to the financial performance of small and medium enterprises in Nakuru town. The predictor is value added services as an element of Mobile Money Merchant Services (MMMS) whereas the dependent variable is financial performance small and medium enterprises in Nakuru Town measured in terms of ROA ratio.

The study established no significant linear relationship between value added services of mobile money merchant services and financial performance of small and medium enterprises in

Nakuru Town, ($\beta_3=0.069$, $p>0.422$) on financial performance of small and medium enterprises in Nakuru Town. The first hypothesis **H0** that value added services of mobile money merchant services does not significantly affect financial performance of small and medium enterprises in Nakuru Town was accepted. This was because value added services of mobile money merchant services by small and medium enterprises in Nakuru Town did not have significant effect on their financial performance.

The finding on value addition services by MMMS is supported by Ngaruya (2014) who established that Majority of the respondents observed that their sales revenue increased after the usage of mobile money transaction. The study established that debt collection before the adoption of mobile money services was bad compared to after the adoption. The SMEs were found to have performance poorly before the adoption mobile money on cash management; compared with after the adoption of the service. On whether the use of MMT had any significant effect on sales, debt collection and cash management, the analyzed results revealed that the use of mobile money transaction had no statistical significant effect on sales revenue, debt collection and cash management but was only based on perception

CONCLUSIONS

The study established that Mobile Merchant Services had various value additions which were fast, cheap and convenient. The services also made accounting easy making transactions safe and extending mobile money improves service delivery to customers. The study encountered the following limitations during the period of data collection: Due to time and resource constraints the study covered only the SMEs located around Nakuru Central Business Distinct. The haphazard of the nature of the businesses operating within and around the Central Business Distinct was a challenge during data collection process. This was managed by hiring more research assistants so that more mobile businesses are covered within the first day of data collection. The study also faced lack of cooperation among the entrepreneurs on providing some specific data on income this was addressed by an explanation that the study was only for academic purpose in addition conducting data simulation using a few accurate data on financial performance

RECOMMENDATIONS

The following recommendations were important as far as the effects of mobile money transactions on the financial performance of Small and Medium enterprises; that those Small and Medium enterprises should continue using Mobile Money Merchant Services frequently in

order to realize the benefits of its usage in the financial performance of their enterprises. The SMEs owners/ managers should be keen on tracing their financial performance through use of mobile money. For those who did not use mobile money transactions, should adopt this service to enable them perform better. This is because those SMEs that were found using Mobile Money Merchant Services indicated an improved financial performance.

The study also recommends that the Mobile Money Merchant Services providers should improve on innovative service improvement so as to enable the system to produce a receipt for audit trails and verification purposes. This recommendation is based on the fact that great proportions SMEs use this service to transact their business. A physical verification of any transaction is quite important in case of audit purpose and reconciliation of accounts. By having a system that produces receipt, this will improve the system and enable tracking of payments and receipt easier. In line with that the service providers should make the system more reliable and secure so that the users may have confident when using the system. This recommendation is based on the fact that sometimes a transaction may be done and the reversed at the detriment of the business. In addition, reliability is based on the fact that sometimes the service experiences delays. The service providers should differentiate individual usage of mobile money transaction and business usage so that once a transaction has been completed there should be no reversal or cancellation leading to loss of money to the business.

The aim of this study was to examine the effect of mobile money merchant services on the financial performance of small and medium enterprises in Nakuru town. The study did not concentrate on effects of mobile money on the profitability of small and medium enterprises. This calls for further research on the multiplier effect of mobile money on the profits of SMEs.

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