

Influence of Mobile Money Services on the Growth of Sme In Nakuru Town Kenya

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Abstract: Recently emerging technologies in the SMEs industry is the use of mobile phone technology for both banking and remittance. This study sought to examine the influence of mobile money services on the growth of SMEs in Nakuru town Kenya. The study sought to examine the influence of mobile payments, mobile finance and mobile banking on the growth of SMEs. The target population included all SMEs in town. A sample of 100 SME entrepreneurs was taken to be respondents. A close ended questionnaire constructed on a 5-point Likert scale was used for data collection. Data was analyzed using Statistical Package for Social Sciences (SPSS). Analysis was done in form of descriptive and inferential statistics. Findings were presented in statistical tables and discussions. Regression analysis demonstrated that the three variables had significant influence on the growth of SMEs. Multiple regression analysis indicated that mobile finance has variables significant in explaining the variation in growth of SMEs. The study concluded that mobile finance has significant influence on the growth of SMEs. The study recommended that mobile money service providers should encourage SMEs traders to adopt the use of mobile money services through enhanced advertisement.

Keywords: Mobile banking, Mobile finance, Mobile money, Mobile payment, SMEs.

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I. INTRODUCTION

Technology is consistently cited as one of the greatest challenges faced by small and medium enterprises (SMEs) around the world. It is widely recognized that technology is invaluable for improving efficiency, accuracy, increasing outreach and reducing costs. However, many SMEs lack sufficient funds to invest in suitable backend technologies, or operate in regions where access to critical infrastructure such as the Internet remains scarce. Still others sink funds into poor technology investments, or simply choose not to invest, limiting their ability to grow and compete (Rosenberg, 2009).

One of the recently emerging technologies in the microfinance industry is the use of mobile phone technology for both banking and remittance. According to Gartner (2012) and ITU (2014), the global volume of mobile transactions is expected to grow from USD 37.4 billion in 2011 to over USD 1.13 trillion in 2014, while the number of users of mobile money services worldwide will surpass 141 million in 2014, and the number of mobile phones will be 7 billion, greater than the total population in the globe. This represents a mere 2.1% of all mobile users worldwide. This implies that there is still much room for growth especially in regions where there is lack of alternative payment methods. By 2012, there were 25 mobile money services operated by different Mobile Network Operators (MNOs) across Africa (GSMA, 2012). Among these, 15 are in East Africa (GSMA, 2012). Among the five East African countries, Kenya has the leading number of users of mobile money services with 17,800,000 registered users, which represents 71.3% of the total number of mobile phone users in the country. Tanzania is the second with 9,200,000 users of mobile money which represents 43.4% of the total number of mobile phone subscribers in the country (GSMA, 2012). Uganda has the third largest number of mobile money users in the East African region with 2,100,000 users representing 8.1% of the total number of mobile phone subscribers. Rwanda and Burundi have 309,127 and 29,000 users of mobile money services representing 8.3% and 2.7% of the total number of mobile phone users in those countries respectively (GSMA, 2012).

Mobile money services can be broadly categorised into three groups: m-transfers, m-payments and m-financial services. M-transfers involve money transfer from one user to another, normally without any accompanying exchange of goods or services (Jenkins, 2008). These are also referred to as person-to-person (P2P) transfers and may be domestic or international (Jenkins, 2008). M-payments involve money exchange between two users with an accompanying exchange of goods or services. M-financial services are mobile money services in which mobile money may be linked to a bank account to provide the user with a whole range

of transactions that they would access at a bank branch. Users access financial-related services like insurance and micro-finance among others via their mobile phones (Jenkins, 2008).

Ivatury and Mas (2008) predicted that poor people are more likely to use mobile phones to undertake financial transactions than rich people. People in less developed countries have very few options, if any, for transferring money and accessing banking services. Further, in the developing world there is less formal banking infrastructure few bank branches, automated teller machines and low internet penetration. In the USA and EU countries, it is estimated that SMEs contribute over 60 percent in employment, 40-60 percent to Gross Domestic Product (GDP) and 30-60 percent to exports. The Asian Tigers such as India, Indonesia, China, Malaysia, Japan, and South Korea also have thriving SMEs sectors contributing between 70-90 percent in employment and an estimated 40 percent contribution to their respective GDPs. In Africa, economic powerhouses such as South Africa, Egypt, Nigeria and Kenya, the SME sector is estimated to contribute over 70 percent in employment and 30-40 percent contribution to GDP but contribute less than four percent to export earnings (United Nations, 2005).

Emergence of mobile money services in the financial market is playing critical role in economic development. Porteous (2006) asserts that the success of the new technology requires enabling environment as a working mobile money ecosystem requires a concerted effort from many players in the market (Jenkins, 2008). In Africa, the adoption rate of mobile money is high. Initially, focus on determinants to use mobile money aroused concerned on the social and economic variables (Litondo & Ntale, 2013). More interest on the economic impact on performance triggering a number of studies conducted on microenterprises indicating positive benefits for those who use it to carry business (Kwakwa 2012; Donner 2007).

The growth of mobile money services is a blessing to microenterprises, which otherwise could not be served well by commercial banks. It is possible for banked individuals to access their accounts through their phones. Mobile money services are widely being expanded to reach the rural areas. The ideal it provides has also enhanced the use of the platform to carry out various transactions that can be offered through banks or registered agents. The person who makes payment and the person who receives the payment are linked together with the existing framework. Mobile phones enable both communication and financial transaction processing. The new technology does not only cover local transaction, but also international transactions (Bangens & Soderberg, 2011).

Small and medium enterprises in Kenya have adopted the use of the mobile payments as a way of transacting their business because of the relative affordability of mobile phones and the mobile banking services they offer (Mbogo, 2010). The vision 2030 proposes intensified application of science, technology and innovation to raise productivity and efficiency across its three pillars (economic, social and political) on which it is based. Mobile Money Transfer Service (MMTS) is one of the innovations in the ICT sector that may enhance the efficiency of businesses if properly used. Following the launch of mobile money transfer service M-Pesa by Safaricom, in March 2007, there quick adoption of the service by many Kenyans through subscription to M-Pesa. The growth of M-Pesa users has been rapid over the years, within eight months of its launch, M-pesa had 900, 000 subscribers (Omwansa, 2009) and by September 2009, over 8.5 million Kenyans were registered users (Safaricom, 2009).

The small and micro enterprises (SMEs) play an important role in the Kenyan Economy. According to the Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). Among the inexhaustible list of factors that could enhance development of SMEs is adequate finances and good financial management among the SMEs. Finance and financial related services are an important prerequisite in initiation, development and growth of business enterprises.

According to Donner (2005), there have been relatively few studies focusing directly on the way mobile phones are used in enhancing productivity among the users in the developing world. Some business also lacks the awareness regarding the potentials that exist in the use of mobile phones and ICTs (Adeya 2003). Mobile phones provide technological services that reduce costs; increase income and increases reach ability and mobility. They can help to extend social and business networks and they clearly substitute for journeys and, for brokers, traders and other business intermediaries (Donner 2005, Hughes & Lonie 2007).

Prior studies carried out elsewhere confirm the positive impact of mobile money transfer service on micro enterprises. Most of these studies were conducted in other countries and in Kenya, studies have been mainly in Nairobi – the capital city, thus they may not reflect the impact on the success and growth of different business environments and in particular the SMEs in Nakuru Town. In fact, it has been observed that, studies investigating the impact of mobile telephones on the performance of firms are very limited, particularly in developing countries (Donner & Escobari, 2010). In light of the foregoing, this study sought to fill this gap by establishing the influence of mobile money services on the growth of SMEs in Nakuru town Kenya.

II. STATEMENT OF THE PROBLEM

The majority of the SMEs in Kenya operate in the informal sector with most of them being sole proprietorships or family businesses usually employing less than five persons. They are involved in small semi-organized and sometimes unregulated activities that are mainly concentrated in urban as well as in some parts of the rural areas. The business functions are usually conducted by the owner/manager in market stalls, open-yards, and residential houses and on undeveloped open grounds. Many of these micro business operators do not have bank accounts while those who do, find the bank accounts cumbersome to operate as they have to leave their businesses unattended in order to conduct transactions in a bank. As a result the mobile money services have become popular both for the unbanked and the banked. The adoption of the mobile money services have been accelerated by the relative affordability of mobile phones and the mobile banking services they offer. The SMEs operators are able to transact payments directly with their customers and suppliers through a mobile phone in the palm of their hands without necessarily going through a bank and without having to leave their business premises. Several studies have been done in regard to mobile money services that have revealed the potential of mobile network technologies for financial transaction purposes (Pousttchi, 2003; Taga & Karlson, 2004). Most of these studies were conducted in developed countries and thus may not reflect the impact on the success and growth of different business environments and in particular the SMEs in a developing country like Kenya. There exists a need therefore, for a substantive research on the impact of mobile money services on the success and growth of SMEs in Kenya. Therefore this study sought to establish the influence of mobile money services on the growth of SMEs in Nakuru town Kenya.

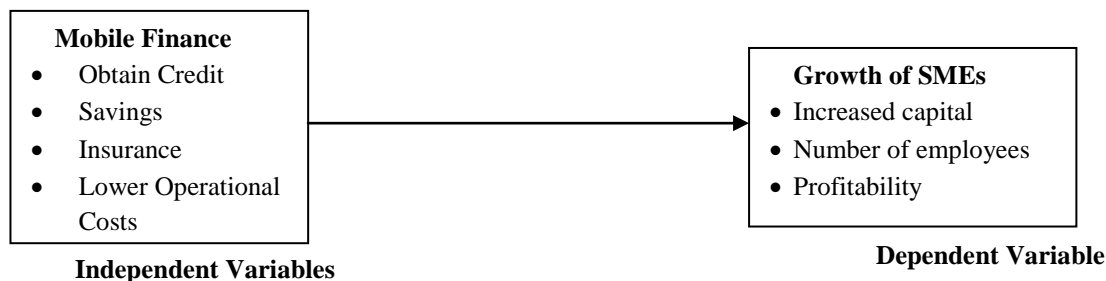
III. OBJECTIVES OF THE STUDY

The study sought to establish the influence of mobile money services on the growth of SME in Nakuru town, Kenya. More specifically the study established the influence of mobile finance on the growth of SMEs

IV. HYPOTHESIS OF THE STUDY

H₀: There is no significant influence of mobile finance on the growth of SMEs in Nakuru town, Kenya.

V. CONCEPTUAL FRAMEWORK



VI. THEORETICAL REVIEW

Entrepreneurship and innovation theory

The entrepreneurship and innovation theory introduced and developed by Joseph Schumpeter (1838-1950). The original approach focused on the role of innovation on entrepreneurship, economy and social change. Schumpeter argued that, the economy through static lenses focused on the distribution of given resources across different roads. Schumpeter's view of economic development is seen as a process of qualitative change driven by innovation taking place in historical time. Giving examples of innovation, Schumpeter mentioned new products, new methods of production, new sources of supply, exploitation of new markets, and new ways to organize business.

He defined innovation as a new combination of existing resources. Through these combinations, he labeled the entrepreneurial function. For successful innovations, Schumpeter noted the important role played by entrepreneurs. That is, the prevalence of inertia or resistance to new ways at all levels of society that entrepreneurs had to fight in order to succeed in their aims. Rafinejad, (2007) describes the Schumpeter's theory as the one that emphasizes innovation-ignoring risk taking and organizing abilities of an entrepreneur.

The theory of entrepreneurship is important to this study as it describes the relationship between innovation and entrepreneurship. Innovations as seen in the theory bring about economic and social change. On the other hand, innovation has presented as an opportunity through which entrepreneurs can create new products, new methods of production, new sources of supply, exploitation of new markets and new ways to organize business. In the study context, mobile money services presents an opportunity for SMEs to have new ways of doing business, which are likely to bring economic and social changes within the customer fraternity.

This is reflected in the way the SMEs use the services to deal with their customers and suppliers to facilitate their business.

VII. MOBILE FINANCE AND GROWTH OF SMES

Mobile finance services assist microenterprises to pay for their insurance premiums, accumulate assets and obtain credit. Govil et al. (2014) have analyzed the role of mobile finance and found that it enhances economic growth of businesses. It speeds up the flow of goods and services create conducive atmosphere for investment and above all security. Onyango et al. (2014) examined the impact of adoption and use of mobile phone technology on the performance of micro and small enterprises, and indicated a positive relationship between mobile usage and the performance of micro and small enterprises. Similarly, Kakwa (2012) report that there is an influence of adoption and use of mobile phone technology among SME's through faster response to customers' needs, increased internal efficiency, access to new markets and lower operational costs.

Mobile finance assists SMEs to save and get credit, which enable them to communicate with their clients. The improvement in communication enhances their business transactions. They can reduce unnecessary cost of meeting their clients and cost of debt collection through communication. The link between them and their clients improves their sales over time. SMEs can access credit through mobile finance that helps them achieve short-term needs of the business. Donner (2007) has observed in Rwanda that SME benefit because of using mobile money in business operations. Kakwa (2012) made similar observation in Ghana that mobile finance improves customer services not excluding marketing. Govil et al. (2014) findings showed that businesses using mobile finance such as savings, insurance and credit experiences improved economic progress in their activities.

Micro enterprise operators in Kenya have adopted the use of the mobile payments as a way of transacting their business because of the relative affordability of mobile phones and the mobile banking services they offer (Mbogo, 2010). "Mobile money" is money that can be accessed and used via mobile phone (Jenkins, 2008). Mobile money can be used to settle a variety of transactions conveniently and it transforms the mobile phone into a mobile wallet. To access Mobile Money Transfer Services (MMTS), a customer must first register at an authorized mobile money transfer retail outlet of a mobile network operator offering MMTS. The customer is then assigned an individual electronic money account that is linked to his phone number and accessible through a SIM card-resident application on the mobile phone.

The study by Saleem and Rashid (2011) in Pakistan examined the relationship between customer satisfaction and mobile banking in Pakistan. Questionnaires were given to 230 bank employees and 230 bank customers. Findings revealed that customers concerns about security, authenticity and reliability of technology were significant. Results imply that firms should focus upon IT application, innovative services, security, and customer trust and risk because they are key indicators of technology adaptation

VIII. GROWTH OF SMEs

Higgins *et al.* (2012) investigated the mobile money usage patterns of Kenyan SMEs. The authors surveyed 865 SMEs which were urban and semi-urban based businesses. They found that whether Kenya SME owners used mobile money to receive payment, pay bills, salaries, or suppliers, they are higher in volumes of both mobile money adaptation transactions. Data showed that of the 865 SME owners who responded, 861(99.5%) used mobile money services in their personal or business dealings, and 67% used it for business.

Mbogo (2010) investigated success factors attributable to use of mobile payments by micro-business operators. The study based on a survey conducted through administration of questionnaires. The data collected from a sample of 409 micro-business entrepreneurs in Nairobi, Kenya. The study applied TAM, which extended to include other factors to help predict success and growth in micro-businesses. Key findings showed that convenience, accessibility, cost, support and security factors are related to behavioural intention to use and actual usage of the mobile payment services by the micro businesses to enhance their success and growth. Moreover, it found that mobile money promotes entrepreneurship by providing a platform for development of new services and by enhancing performance of small enterprises.

According to World Bank (2012), the inability of the SMEs to access funds is still a major issue that limits the formation of new businesses and prevents others from expanding and growing. Lennart and Bjorn (2010) note that cash-flow management are key bottlenecks for micro and small enterprises operations. This assertion tallies with what Booster et al (2008) who established that debt collection, lack of working capital and low sales are among the top five challenges facing micro and small businesses. These challenges make SMEs lack financial capacity to enlarge and develop.

According to Atieno (2009), most formal financial institutions consider SMEs as un-creditworthy, thus denying them credit. This lack of access to financial resources has been seen as one of the reasons for the slow growth of SMEs. This is coupled with negative perception towards them, which adversely affect their ability to access financial services provided by financial institutions. This is because they are considered not viable

customers by the formal financial sectors as their transaction sizes are small. Their accessibility to financial institutions is difficult due to low capital base, poor returns, lack of financial records and collateral property to secure loans from banks and this in turn affects their development (Amyx, 2005).

The objective of mobile financial transactions is to improve the efficiency of microfinance by using mobile technology to make transactions faster, cheaper and more secure (Guagraw, 2007). It involves account transactions, balance checks and payments. Accordingly, Mbiti and Weil (2011) note that mobile phones technology has made it easier for SMEs to conduct their financial transactions. This is because mobile phone financial transactions saves time and provides a safer means of handling money transfer. Additionally, mobile technology can be used to reach more customers and facilitate exchange of information and decision making.

Huang (2008) conducted a study to determine the impact of mobile phones on SMEs performance in Auckland, New Zealand. He used a questionnaire to collect primary data. The results of his study indicated that most SMEs in Auckland were using mobile technology to conduct their business activities. Additionally, the results of the study indicated that the use of mobile devices had enabled SMEs to increase their annual turnover due to additional business networking opportunities. Furthermore, Bangens and Soderberg (2008) assessed the role of mobile banking and its potential to provide basic banking services to the vast majority of people in Sub-Saharan Africa. The data for the study collected from both the primary and secondary sources. According to their findings, mobile banking has facilitated financial transactions and remittance of funds. Additionally, the results of their study indicated that mobile banking has enhanced the operations and competitiveness of SMEs.

IX. RESEARCH METHODOLOGY

The study employed descriptive survey research design. Descriptive survey enables the researcher to respond to the “what” question which is the case in this study. The target population included all SMEs in town. Burns and Grove (2003), refer to sampling as a process of selecting a group of people, events or behaviour with which to conduct a study. The researcher undertook purposive sampling to select 100 SME proprietors to participate in the study. The use of purposive sampling was as a result of the large number of SMEs; over 2,000 in Nakuru CBD making it convenient to apply purposive sampling. Simple random sampling technique was used to obtain the 100 proprietors among the many SMEs in the area. The purpose of sampling is to secure a representative group (Mugenda, 2008). According to Mugenda and Mugenda (2009), questionnaires are very suitable in survey research. The researcher employed the use of a structured questionnaire to collect data from the respondents. The questionnaire consisted of statements constructed in form of a 5 point Likert scale (1-Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree and 5-Strongly Agree). The collected data was analyzed by both descriptive and inferential statistics with the aid of the Statistical Package for Social Sciences (SPSS) version 24. Means and standard deviations were employed across all variables (independent and dependent variables). Inferential statistics in form of correlation and multiple regression analyses were employed. The study used the t-test to test the hypotheses at 95% level of Confidence ($\alpha=0.05$). In addition coefficient of determination (R^2) was used to test the contribution of each independent variable on the dependent variable. The findings of the study were presented in form of statistical tables.

X. FINDINGS AND ANALYSIS

Mobile Finance

The researcher sought to establish the perceptions of respondents regarding use of mobile finance in their business. The percentages, means and standard deviations were computed to provide insight in this respect. The findings were as shown in table 4.6

Table 4. 1: respondents perceptions on mobile finance

	SA (%)	A (%)	U (%)	D (%)	SD (%)	Mean	Std. Dev
Through use of mobile finance am able to obtain credit from financial institutions	22.9	59.4	10.4	4.2	3.1	3.95	.887
Mobile finance has enabled me gain enough finances to grow my business	29.2	49.0	10.4	10.4	1.0	3.95	.956
Through mobile finance am able to save money from my business proceedings	26	57.3	6.3	10.4	0	3.99	.864
The presence of mobile finance relieves me the problem of having to open a bank account	21.9	52.1	7.3	14.6	4.2	3.73	1.090
Access to mobile finance enables my quick response to customers' needs	28.1	53.1	6.3	11.5	1.0	3.96	.951
Valid N (listwise)	96						

Respondents agreed with all the attributes of mobile finance registering means greater than 3.5 and standard deviations less than 1.0. Thus the views of the respondents were not greatly dispersed. From the findings above, 82.3% of the respondents agreed (M=3.95, SD=.887) that through the use of mobile finance, they are able to obtain credit from financial institutions and that mobile finance has enabled them gain enough finance to grow their business (M=3.95, SD=.956) with 78.2% of the respondents agreeing and/or strongly agree with the statement. Further 83.3% of the respondents agreed that through mobile phone they are able to save money from their business proceedings and that the presence of mobile finance relieves them the problems of having to open a bank account. In addition, 81.2% of the respondents agreed (M=3.96, SD=.951) that access to mobile finance enables their quick response to customers' needs.

Growth of SMEs

The researcher sought to establish respondent's views in regard to the growth of SMEs in Nakuru CBD. The percentages, means and standard deviation values were established to accomplish this endeavor. The findings from the analysis were presented as shown in table 4.9

Table 4. 2: Respondents perceptions on SMEs growth.

	SA (%)	A (%)	U (%)	D (%)	SD (SD)	Mean	Std. Dev
Use of mobile money services has been a great help in the growth of my business	30.2	50.0	4.2	13.5	2.1	3.93	1.039
Ability of gaining credit facilities through mobile money has enabled me to gain enough capital to grow my business	27.1	54.2	7.3	10.4	1.0	3.96	.928
My business has grown to the extent of employing more people to assist in running of the business	25.0	54.2	13.5	7.3	0	3.97	.827
I have seen growth in profit in my business since the time i started using mobile money services	20.8	61.5	12.5	5.2	0	3.98	.740
Mobile money services provided alternative source of credit from banks which were difficult to obtain	28.1	56.3	9.4	6.3	0	4.06	.792
The use of several branches of mobile money services has enabled me expand my business through opening new branches	29.2	51.0	9.4	9.4	1.0	3.98	.929
Valid N (listwise)	96						

From the analysis the researcher established that 80.2% of the respondents were in agreement that the use of mobile money services has been a great help in the growth of their business (M=3.93, SD=1.039) while 81.3% agreed that the ability of gaining credit facilities through mobile money had enabled the respondents to gain enough capital to grow their business (M=3.96, SD=.928). On average 79.2% of the respondents agreed that their business had grown to a level where they had to employ more people to assist in the running of the business (M=3.96, SD=.827). Additionally, 82.3% of the respondents agreed (M=3.98, SD=.740) that they had seen growth in their profits in their businesses since the time they began using mobile money services and that mobile money services provided alternative sources of credit from banks which are difficult to obtain. Finally, 80.2% of the respondents agreed that the use of several branches of mobile money services had enabled them to expand their business through opening new branches.

Relationship between Mobile Finance and Growth of SMEs

Pearson correlation coefficient establishes to show whether there a significant relationship between the two variables. The findings from the analysis were as shown in table 4.11

Table 4. 3: Correlation between Mobile Finance and Growth of SMEs

		MobileFinance	SMEGrowth
MobileFinance	Pearson Correlation	1	.542**
	Sig. (2-tailed)		.000
	N	96	96
SMEGrowth	Pearson Correlation	.542**	1
	Sig. (2-tailed)	.000	
	N	96	96

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

The findings demonstrated the presence of an average positive significant ($r=.542$, $p=.000$) between mobile finance and SMEs growth. Therefore it observed that there is a direct linear relationship between the two variables implying that if one variable increased it consequently results to an increase in the other variable. Therefore in order to enhance the growth of SMEs in Nakuru CBD, the use of mobile finance is of key significance.

Influence of Mobile Finance and Growth of SMEs

The second hypothesis assumed that mobile finance has no significant influence on the growth of SMEs in Nakuru CBD. To ascertain the hypothesis, analysis of variance was done at $p<.05$ level of significance. The findings from the analysis were as shown in the following tables.

Table 4. 4: Model Summary for mobile finance and the growth of SMEs

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.542 ^a	.294	.286	.57948

a. Predictors: (Constant), Mobile Finance

The analysis gave an R-squared value of .294 indicating that mobile finance can account for up to 29.4% of the total variance in the growth of SMEs in Nakuru CBD. Thus mobile finance plays a significant role in the growth of SMEs in Nakuru. ANOVA gave the following results shown in table 4.16

Table 4. 5:ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	13.115	1	13.115	39.056	.000 ^b
Residual	31.565	94	.336		
Total	44.681	95			

a. Dependent Variable: SME Growth

b. Predictors: (Constant), Mobile Finance

The table indicated that the F-value ($F_{(1, 94)} = 39.056$, $p=.000$) for mobile finance was significant at $p<.05$ level of significance. Therefore, mobile finance was shown to have a significant influence on the growth of SMEs in Nakuru CBD. Therefore the second hypothesis that mobile finance has no significant relationship was consequently rejected. The researcher concluded that mobile financing significantly influences the growth of SMEs in Nakuru CBD.

XI. CONCLUSION

From the study findings, the study concluded that mobile money services significantly influences the growth of SMEs in Nakuru CBD, Kenya. This is depicted by the findings in this study that shows direct relationships between mobile finance and the growth of SMEs. Therefore the study concluded that the increased use of mobile finance has a positive impact on the growth of SMEs in Nakuru. This growth can be seen through the expansion of the small SMEs from a single person run business to multiple employees and finally to a large enterprise with several branches.

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