



Utilization of MPESA and performance of SMES businesses in Nakuru CBD, Kenya

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Abstract

SMEs form a dynamic force for sustained economic growth and job creation in developing and developed economies. The study's objective was to determine whether Mpesa utilization has had any impact on the growth and performance of SMEs in terms of sales, savings, profitability, and customer base. The research targeted SMEs in Nakuru town, which utilized Mpesa services in their businesses. The study utilized an experimental research design to compare the performance of the SMEs before and after utilization of Mpesa services. The study sampled 200 SMEs using the convenience sampling technique. The study's findings revealed that the more significant part of the SMEs interviewed (93.8%) indicated that Mpesa utilization had benefitted their businesses because it is efficient and reliable. In addition, the findings indicated that the calculated t -values for the sales (5.9915), profits (6.7487), savings (7.1773), and customer base (8.4951) were more significant than the critical t-value (2.64) at a 1% level of significance. Therefore, the utilization of Mpesa services significantly increased the performance of the SME businesses in terms of sales, profits, savings, and customer base.

Keywords: utilization of MPESA, SMES businesses, Nakuru CBD

Introduction

A research study done by Anurag et al. (2015) documented that Mpesa has increased, currently reaching approximately 40 percent of Kenya's adult population, and is widely viewed as a success story to be emulated across the developing world. Mpesa is considered a branchless banking service, meaning that it is designed to enable users to complete basic banking transactions without visiting a bank branch (Anurag et al., 2015). A study done by Nyagah (2013) documented that small and medium scale enterprises (SMEs) are among the greatest beneficiaries; since utilizing Mpesa allows them to go to the bank less often, so they spend more time running their businesses. In addition, many Kenyans without bank accounts can now receive and send money via their mobile phones, wherever they are in the country (Mbogo, 2010).

The wide adoption of Mpesa in Kenya was propelled by Safaricom network power coupled with widely distributed agents across the country within the competitive telecommunication industry. This comprehensive coverage has compelled many to utilize it (Gillet, 2011). In addition, Mpesa market success can be interpreted as the interplay of three sets of factors. These factors comprise pre-existing country conditions that made Kenya a conducive environment for a successful mobile money deployment (Amrik and Mas, 2009). Others were clever service design that facilitated rapid adoption and early capturing of network effects (Mas and Morawczynski, 2009) and Safaricom business execution strategy (Mas and Ng'weno, 2010), which helped Mpesa rapidly reach a high number of customers. However, there are documented challenges with the use of Mpesa, such as delays, occasional network disruptions, and reconciliations of accounts (Sadana et al., 2011).

Small and medium scale enterprises are vital in any economy in that they participate in overall investment (Mutai, 2011). However, the definition of SMEs seems to differ significantly across countries and publications. In most cases, the number of employees, value of assets, sales, and size of initial capital and turnover are the factors used in defining SMEs. Notwithstanding, SMEs form part of entrepreneurs, sole proprietors, or can be a partnership or limited company (Nteere, 2012). For this study, Small and medium scale enterprises (SMEs) were defined as "businesses with one to fifty employees," in line with GOK (2005).

SMEs are considered the engines of growth in developing countries because they play a significant role in improving entrepreneurial skills such as spurring innovations, contributing capital, creating jobs, and creating new products, thus contributing to economic growth and vitality (Liedholm and Mead, 1999).

According to Chogi (2006), most of the Kenyan population, including SMEs, do not hold bank accounts. Therefore the utilization of Mpesa as a money transfer service provides an alternative banking solution. Others where SMEs can transact business, make payments, pay bills, send and receive cash. Mpesa comes in handy as an innovative new mobile payment solution that enables SMEs to complete simple financial transactions by use of mobile phones (Hughes and Lonie 2007). However, Porteous (2006) noted that the degree of influence of

mobile payment on the operation performances of small enterprises largely depends on how conducive the business environment is. A study done by Pagani (2004) documented that small and medium scale enterprises form the most significant number of those most benefiting from mobile-payment services. SMEs have speedily adopted Mpesa because it is user-friendly, efficient, easily accessible, widely distributed, reliable, and available twenty-four hours (Pagani, 2004; Anurag et al., 2015).

Statement of The Problem

Before the introduction of Mpesa in 2007, small scale businesses in different parts of Kenya had a minimal scope of communicating, sending, or receiving money from customers or suppliers in different parts of the country. They faced even more significant challenges in commuting to different locations for business activities (Salzman et al., 2001). The combination of widespread cellular communication and the ability to transfer money instantly, efficiently, securely, and inexpensively (Mas and Radcliffe, 2010) have led to enormous changes in the economic activities, business relations, risk management, and mitigation among small scale businesses (Plyler et al., 2010). The introduction and utilization of Mpesa raised fundamental questions as a means of money transfer. First, has the utilization of Mpesa affected the profitability of small and medium scale businesses? Second, has the utilization of Mpesa affected SME savings? Third, how has the utilization of Mpesa affected the customer base of small and medium scale businesses, and what effect has it had on the growth of the small and medium scale businesses?

Research Objectives

To find out whether utilization of Mpesa by small and medium scale businesses in Nakuru town has affected savings.

To investigate the effect of Mpesa utilization on the customer base of small and medium scale businesses in Nakuru town.

Literature Review

Malick (2015) points out that Kenya's informal sector constitutes 98% of all businesses, absorbing a significant population of high school, college, and university leavers. According to Munyange (2012), 64.3% of the SMEs were in trade, 14.8% in services, and 13.4% in manufacturing. Moreover, about 7.7% were involved in other businesses. The SME sector competes with large private firms and the government in the generation of new jobs but has the advantage of generating many more such jobs for a modest input of capital. Therefore, expanding this sector is a crucial mechanism of generating employment for the unemployed and the underemployed, especially in developing economies (Palma, 2005).

A survey done by Nyagah (2013) revealed that small and medium-scale enterprises in significant towns of Kenya had a clear understanding of the essential functions of mobile money services and have utilized this technology in their businesses. In addition, the study found that mobile money has made a significant contribution to the SME sector. The majority of the traders interviewed relied on it instead of the formal banking sector for their day-to-day transactions. According to Jack and Suri (2015), the launch of Mpesa in Kenya by Safaricom has enabled SMEs to expand and grow. The service provides them with efficient and easier ways of paying and receiving payments for goods and services, thereby facilitating their trading activities. Anurag et al. (2015) add that most SMEs have utilized mobile payment methods because it is cheap for them to deliver cash to their creditors and business partners and can be used anywhere at any time. Further, these services have enabled the SMEs to save more time since they go to the bank less often; the saved time is thus spent productively in their businesses.

Donovan (2011) revealed that Mpesa has aided the person-to-person transfer of money locally and has also offered international remittance services to and from forty-five countries worldwide, including countries in Europe and North America. It, in turn, has helped the subscribers of Mpesa to connect with global money transfer networks and accorded them the flexibility of conducting transactions locally and internationally.

Mpesa utilization by small and medium scale enterprises has helped enhance their performance by providing them with a tool for efficiently effecting transactions. By using Mpesa, SMEs can increase the speed of service delivery, reduce costs and increase efficiency, thereby creating a competitive advantage in their businesses (Mbogo, 2010). Chogi (2006) did a study to investigate the impact of mobile phone technologies on SMEs in Nairobi. The study revealed that most SMEs perceived that mobile phones have had a positive impact on their revenues and that mobile banking enabled them to reduce their business operating costs and increase their productivity and profitability.

Another study by Higgins et al. (2012) observed that most SMEs prefer mobile phone financial transactions to bank-based financial transactions. This is because mobile money transfer enables SMEs to avoid travel expenses when collecting and making payments from banks. It, in turn, enables them to reduce their operating costs and increase their business profitability significantly. Further, Higgins et al. (2012) noted that SMEs operations are characterized by frequent financial transactions which may involve significant amounts or long distances. As a result, mobile phone payments provide them with a cheaper and more convenient way of carrying out their financial transactions, thus lowering their business costs and saving time. Esselaar et al. (2007) conclude by noting that the ease at which an individual can utilize a mobile phone makes the impact of mobile phones on the productivity and performance of businesses enormous.

According to an annual report by Safaricom (2009), SMEs form the most considerable number of those most benefiting from the Mpesa services. In addition, a study conducted by Higgins et al. (2012) to determine mobile money usage patterns by Kenyan SMEs revealed that 99.5% of the SMEs interviewed used mobile money. Furthermore, the study indicated that mobile money enabled SMEs to improve their business performance. Chattopadhyay and Duflo (2004) documented that M-Pesa has the effect of empowering certain household members who have traditionally had less bargaining power, particularly women and the poorer segments of the society. In effect, Mpesa has impacted household allocation and spending of funds because money sent via Mpesa reaches the recipient directly, without the involvement of a third party such as delivery by a friend or relative. Accordingly, a recipient could keep more of the funds they receive and be empowered to make personal decisions on whether to save or spend.

Methodology

The study used a quasi-experimental research approach was employed. Quasi-experimental research design is an event study used to compare the performance of the sampled SMEs before and after the intervention. The target population is comprised of small and medium scale businesses in Nakuru town which have utilized Mpesa services in their business operations. From the population, 200 SMEs which had utilized Mpesa services were sampled within the central business district of Nakuru town. A non-probability sampling technique was utilized to arrive at the sample. Convenience sampling was used to select a sample size of 200 SMEs from the central business district (CBD) of Nakuru town. Moule and Hek (2012) suggested that convenience sampling is part of a survey or quasi-experimental design.

The study used a structured questionnaire with closed and open-ended questions to collect the primary data. The use of a questionnaire guaranteed the respondents' anonymity and encouraged them to give honest responses. Consequently, increased reliability of the instrument is in line with Mwangi (1999) and Orodho (2005). Furthermore, the study administered a pre-testing session to determine the instrument's validity and reliability. In addition, the data collected before analysis to detect and eliminate errors and omissions to make it meaningful. Out of the 200 questionnaires returned, 193 were used for data analysis.

Results and Discussion

The study's main objective was to determine the effect of Mpesa utilization on the performance of SMEs in Nakuru Town. Therefore, the SMEs interviewed were asked to indicate their opinion on how utilization of Mpesa services had influenced the performance of their businesses in terms of sales, profits, savings, and customer base. A 5 point Likert scale was to measure their responses where; 1= strongly agree, 2= agree, 3= neutral, 4= disagree, and 5= strongly disagree. The study's findings on how utilization of Mpesa had influenced the performance of SMEs interviewed are outlined in Table 19.

Table 1: Utilization of Mpesa and Performance of SMEs

Variables	SA	A	N	D	SD	X2	P-value
Sales	93(48.2%)	79(40.9%)	18(9.3%)	3(1.6%)	NIL	122.503	0.000
Profits	74(38.3%)	98(50.8%)	17(8.8%)	4(2.1%)	NIL	125.860	0.000
Savings	80(41.5%)	92(47.7%)	18(9.3%)	2(1.0%)	1(0.5%)	200.601	0.000
Customer base	97(50.3%)	75(38.9%)	18(9.3%)	3(1.6%)	NIL	125.487	0.000

SA = strongly agree, A = agree, N = neutral, D = disagree, SD = strongly disagree

Source: Field data (2015)

Table 2: T-test results for difference between means before and after Mpesa utilization

Variables	Before Mpesa	After Mpesa	Mean difference	t- values
Customer base(No's)	23,007	38,796	15,789	8.4951***
Savings (Kshs)	3,679,666	7,618,607	3,938,941	7.1773***
Profits (Kshs)	9,629,114	18,376,858	8,747,744	6.7487***
Sales (Kshs)	22,700,000	39,300,000	16,600,000	5.9915***

As established, most of the SMEs interviewed stated that utilization of Mpesa had increased their business savings. The study findings indicated that 41.5% of the SMEs strongly agreed. In comparison, 47.7% agreed that the utilization of Mpesa services had increased savings in their business when measured on a 5 point Likert scale. The difference between means of savings for the two time periods was statistically significant at a 1% level of significance, as is indicated by the t-value 7.1773; hence Mpesa utilization had significantly increased SME savings. The mean savings after utilization of Mpesa services corresponded to a 107% increase compared to the mean savings before utilization of Mpesa services. It is consistent with research findings by Morawczynski and Pickens (2015) that Mpesa users often kept a balance in their Mpesa account, thereby using the system as a simple bank account even though the system does not provide interest.

The study's findings on SME customer base revealed that the majority of the SMEs interviewed acknowledged that utilization of Mpesa had widened their business customer base. The results of the research study, when

measured on a 5 point Likert scale, showed that 50.3% of the SMEs interviewed strongly agreed. In contrast, 38.9% agreed that the utilization of Mpesa had widened their business customer base. The difference between means of the customer base for the two time periods was statistically significant at a 1% level of significance as is indicated by the t-value 8.4951; thus, the utilization of Mpesa had significantly increased SME customer numbers. After utilizing Mpesa services, the mean customer numbers were 69% greater than the mean customer numbers before using Mpesa services by SMEs. The results agree with research findings by Mbiti and Weil (2015) that mobile technology should reach more customers and facilitate the exchange of information and decision-making.

Conclusions Recommendations

The inferential statistics showed a statistically significant difference in the sales, profits, savings, and customer base of the SME businesses after Mpesa utilization compared to the period before utilization of the service. Therefore, Mpesa utilization had increased the performance of the SME businesses in terms of customer base, savings, profits, and sales. The study recommends an awareness campaign on the services offered by the mobile money service providers to enlighten SMEs on the benefits of the services. A section of SMEs may not be conversant with the benefits that they could reap if they adopted this technology. The policymakers and mobile service providers should expand the service to include rural and marginalized areas that have not been covered by the service to bring onboard SMEs in those areas whose potential has not yet been fully tapped.

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