

# Analysis on Challenges Small Business Face in using the M-Banking/Payment Services in Kericho Town, Kenya

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## ABSTRACT

Mobile banking services are at the present increasingly used to accomplish economic transactions by the business people who would have followed long processes to complete their transaction deals. Despite the importance of mobile banking, several studies indicate that the industry still faces challenges including lack of awareness among the business parties and customers. Though large populations of Kenyans have embraced the new technology in most of their transactions, the contribution of the new technology on small scale enterprises has received very little attention from the scholars. The main purpose of this study was to identify and rank the challenges faced by the residents as they try to embrace the mobile banking services. The study adopted a survey design where data was collected from selected respondents. The population of the study comprises of 730 small business enterprises. Simple random sampling technique was used to select 88 small business enterprises based on 95% confidence level and accepting 5% margin of error as recommended for most business and social researches. Primary data was collected from the respondents. Data was analyzed by using statistical package for social sciences (SPSS) and it was presented in the form of graphs, tables and charts. Analysis of the data revealed that the highest challenge faced by the business owners was the cost of transaction with a cumulative percentage of 51.3 as compared with other challenges.

**Keywords--** M-Banking, Payment Gateway, Cyber Crimes

## I. INTRODUCTION

The spread of mobile phones across the developing world is one of the most remarkable technology stories of the past decade. In many developing countries, 9 out of 10 people do not have a bank account or access to

basic financial services (Wambari, 2009) and there are limited researches in customer relationship management of mobile banking in order to achieve high degree of customer adoption of banking services (Sorournejad, 2008). Around the globe, various initiatives use the mobile phone to provide financial services to those without access to traditional banks (Wambari, 2009). Yet relatively little scholarly research explores the contribution of these m-banking/m-payments systems. This paper calls attention to this gap in the research literature, emphasizing the need for research focusing on the context of m-banking/m-payments use. Scholarly research on the adoption and socioeconomic impacts of m-banking/m-payments systems in the developing world is scarce (Maurer, 2008). Even less attention has been paid to the social, economic, and cultural contexts surrounding the use of these systems.

## II. M-BANKING / PAYMENTS SERVICES IN KENYA

Mobile banking/payments in Kenya is used to attract low income population often rural location and this has been facilitated by retail outlets that process financial transactions on behalf of the banks. Kenya's M-Banking mobile banking service, for example, allows customers of the mobile phone operator Safaricom to hold cash balances which are recorded on their SIM cards. Cash is deposited or withdrawn from M-Banking accounts at Safaricom retail outlets located throughout the country, and is transferred electronically from person to another person as well as to pay bills to businesses. Mobile cell phones have been adopted more than five times as fast as fixed line telephone services, which took 100 years to reach 80 percent of the country population. One of the reasons mobile phone

technology has spread quickly is that it has followed other technologies that may have eased the way. The spread of mobile phone technology has been especially rapid and in Kenya where penetration rates at 80 percent, Jack and Suri (2009). In 2007, the leading cell phone company in Kenya, Safaricom Limited launched M-Banking, a short message service (SMS)-based money transfer system that allows individuals to deposit, send, and withdraw funds from a virtual account on their cell phones and that is separate from the banking system. M-Banking has grown rapidly, currently reaching more than seven million users, approximately 38 percent of Kenya's adult population, and it is widely viewed as a success story to be emulated across the developing world. Indeed, similar products have recently been launched in a growing number of countries across Africa, Asia, and Latin America, with the intent of expanding financial services to previously unreached populations. M-Banking is used not only for remittance purposes, but also to save, to purchase pre-paid phone credit and other goods and services, to pay bills, and to execute bank account transactions. However, consumers do not need bank accounts in order to use M-Banking, and Jack and Suri (2009) found it was used by more than half of the unbanked in their sample.

### III. M-BANKING / PAYMENTS IN KERICHO TOWN

The Mobile phone banking idea was initially born out of the intention to reach the un-banked poor, (Porteous, 2006) and it now appears that most prudential banks have joined in providing banking services via mobile phones (Njenga, 2010). Mobile service provider Safaricom which provide M-Banking services to over 500 small business enterprises in Kericho Town has improved the living standards of the people of Kericho Town as they can send, receive money and pay bills instantly. By applying mobile banking service, customers can conduct banking services at any place and at any time and to connect banking service easily and quickly with mobile devices (Gu *et al.* 2009). the cost has also reduced tremendously as people access their money very fast as opposed to the old tradition of waiting for some time before the transaction is actualized. Delivering value-added to customers is critical for obtaining a competitive edge in the mobile market by strengthening relationships with customers (Wang *et al.* 2009). M-Banking have had great contribution on the economy of the area and the residents appreciate its contribution as a major efficient and reliable means of

funds transfer in their business deals and other economic transactions

Mobile banking is a new technology which has of recent been embraced by a cross section of members of the society. In Kenya, M-Banking plays an important role in the communication and banking sector. Despite the importance of mobile banking, several studies indicate that the industry still faces challenges. This study therefore sought to find out and rank the challenges that business owners in Kericho town face when using the mobile banking with particularly the M-banking services.

### IV. METHODOLOGY

The study adopted descriptive research design that attempted to explain and describe the behavior, attitude and characteristics of respondents in Kericho town area regarding the challenges of M-banking services. The area under study was Kericho town and considered only businesses that uses mobile services for payments. It was the most appropriate design because the data collected will help in answering the research questions concerning the contribution of the mobile banking on the growth of small business, development and in exploring other avenues through which business people can benefit from their services. The researcher adopted simple random sampling technique in selecting the sample respondents. Using this technique, a sample of 88 small businesses and mobile service subscribers were selected. This was based on the formula suggested by Corbetta (2003) using 95% level of confidence and margin of error of 5%. These thresholds are for business and social researches (Saunders, Lewis and Thorn hill, 2007). Questionnaires meant for mobile services targeted those businesses that uses the m-banking/payments in their operations and transactions. The study used primary sources of data and questionnaire as a tool to collect the data

### V. RESULTS AND DISCUSSION

#### *Profile of Respondents*

The research sought to establish the use of M-banking services that is the duration in which they have been in the current business, the duration in which they have been using M-banking/payments services. The research sought to answer the challenges associated with the use of mobile banking/payments. This is the issue about security of transaction, the cost of transaction, the reliability of m-banking services the access to m-banking/payments and the trust to the services.

#### *Duration for using M-banking Services*

**Table 1: Duration for using M-banking Services**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 1 year	16	20.0	20.0
	2 years	8	10.0	30.0
	3 years	10	12.5	42.5
	4 years	24	30.0	72.5
	Over 5 years	22	27.5	100.0
	<b>Total</b>	<b>80</b>	<b>100.0</b>	<b>100.0</b>

Source: Field data

Table1 reveals that 30% business owners have been using M-banking services for 4 years, then those who have been using m-banking for over 5 years with a percentage of 27.5% and then those who have been using it for 1 year with percentage of 20% followed by those who have been using it for 3 years with 12.5% and lastly those who have been using it for two years with a percentage of 10%. This shows that there has been a continuous adoption of M-banking services and it therefore confirms a research done by Jack and Suri (2010).

#### ***Challenges associated with security in the use of mobile banking/payments***

It was found out that, a greater percentage disagree with a percentage of 28.8% that there is a challenge of security at M-banking transaction followed by those who are neutral with a percentage of 25.5% then those who agree with a percentage of 21.3% and then those who strongly agree with a percentage of 18.8% and lastly is those who strongly disagree with a percentage of 8.8%

#### ***Challenges associated with the use of mobile banking on cost of transaction source***

From the research it was found that 28.8% agree and 22.5% strongly agree that cost of transaction is challenge affecting use of m-banking services, followed by those who are neutral with a percentage of 20.0%, then those who disagree with a percentage of 18.8% and lastly are those who strongly disagree with a percentage of 10%. This therefore contradicts a research done by Foster et al (2010) which revealed that 94% of the respondents adopted the use of M-banking services because of its cheap cost.

#### ***The distribution of reliability of m-banking services***

It was found out that those who are neutral have a higher percentage of reliability of m-banking services with 31.1%, followed by those who agree with 25 % then those who strongly agree are third with 20% then those who strongly disagree follows with 12.5% and lastly are those who disagree with a percentage of 11.3%.

#### ***Challenges associated with mobile banking access by the customers***

From the research it was found that 22.5% of the respondents operating SMEs strongly agree to the challenges of access to the service on mobile banking/payments, followed by those who agree with a percentage 21.3%, followed by those who disagree and

those who are neutral both with percentage of 20% and lastly those who strongly disagree with the percentage of 16.3%.

#### ***Challenges associated with the use of mobile banking on the trust to the services***

From the research done about trust to the services, the data reveals that those who agree have the highest percentage of 36.3% then followed by those who disagree with 20 % then those who are neutral are third with 18.8 % then those who strongly agree follows with 12.5% and lastly those who strongly disagree with a percentage of 13.3%.

## **VI. SUMMARY**

From the research it was found out that 38% of the businesses have been in existence for period between 1-5yrs. This is due to M-banking having been in existence for a period of 5yrs and has facilitated this tremendous growth. From the findings, there has been a continuous growth in the use of mobile banking services from 2008 to 2013, majority of the small business enterprises deposit cash in M-banking.

## **VII. CONCLUSION**

From the research it was found out that the leading challenge associated with the use of mobile banking by the respondents is cost of transaction with cumulative percentage of 51.3% then the trust to the services with a cumulative percentage 48.8% and the those who believe that the reliability of the m-banking service with a percentage of 45.0%, then the access to m-banking/payments with a percentage of 43.8% and lastly security in the use of m-banking/payments services with a percentage of 40.1%. This therefore contradicts the research done by Rosenberg (2008) which ranked cash floats is the major challenge that business owners face in using the M-banking services needed.

## **RECOMMENDATIONS**

From the above study the researcher recommends that other additional fact gathering instruments be used so as to collect a more comprehensive data on the above topic. Interviews, observation and informal conversation because the questionnaires alone may not be giving a 100% conclusion on the findings. Service providers should ensure a reliable backroom system is put in place to protect online services and also more training to its subscribers on how to use mobile banking services and they should create awareness on the advantages of using m-banking/payment services.

Also, the government should create institutions that provide and protect knowledge to people of Kericho town and Kenyans at large to develop innovative mobile money applications. It should also seek ways of rolling more relevant mobile applications that will boost financial transactions among low income level groups. The government should enact laws to govern cybercrimes to ensure security of transactions and also the service provider conduct immediate risk assessment audit of M-banking transactions. The government should enact laws that regulate the cost of mobile banking services to prevent users from being overcharged by the service providers.

### SUGGESTIONS FOR FURTHER STUDY

The study has established several areas of research that call for further investigation. This include training and financial advisory, standard rates to be charged, security, legal framework and the need for boosting network reliability.

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