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Effect of E-Banking Strategy on Growth of Small and Medium Enterprises in the Hospitality Industry in Nairobi County, Kenya

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Abstract

Small and Medium Enterprises contribute up to eighty five percent of all new jobs created in Kenya. However, they are characterized by high mortality rate. Even though this is the case, the United Nations Conference on Trade and Development report linked better performance and growth of small and medium enterprises to adoption of new technology such as e-banking. The study sought to establish the effects of e-banking strategy on sustainable growth of small and medium enterprises in the hospitality industry in Nairobi County, Kenya. The study specifically examined the effect of mobile banking strategy on sustainable growth of small and medium enterprises in the hospitality industry in Nairobi County, Kenya. An explanatory research design was used for the study. The target population of the study was 183 licensed hotels in Nairobi County, Kenya. The respondents were either the hotel owners or the general managers for each of the hotels. Questionnaires were used to collect primary data. Drop and ick procedure was adopted for data collection and the period was three weeks. The collected data was coded and analyzed using Statistical Package for Social Sciences version 22. The study used descriptive statistics that is mean, standard deviation and percentages to analyze the data. Furthermore, correlation and univariate regression analysis was also adopted. The findings of the study indicated that mobile banking has a positive and significant influence on sustainable growth of small and medium enterprises in the hospitality industry in Nairobi County, Kenya.

The study concluded that an increase in adoption of mobile banking by the small and medium enterprises improves sustainable growth of small and medium enterprises in the hospitality industry in Nairobi County significantly. The study recommends that small and medium enterprises in the hospitality industry should focus on mobile banking to apply for loans to boost the business, for investment purposes, making deposits, withdrawing funds from the bank and transacting for the purpose of enhancing sustainable growth.

Key Words: *Mobile Banking, E-banking Strategy, Sustainable Growth, SMEs, Kenya*

BACKGROUND OF THE STUDY

According to UNCTAD (2015), the role played by Information Communication and Technology have been acknowledged by development practitioners and policymakers. For example, the 8th MDG aimed at availing new technology benefits, especially ICTs, to poorly developed regions around the world. Accessibility of ICTs by SMEs is one of the factors that contribute to growth in areas of information and technologies related to communication which strengthens SMEs growth and simplifies operations in course of business operations. According to González *et al*., (2014), development impacts contributed by ICTs largely depends on the accessibility of technologies to firms more so to SMEs. Dutta and Mia (2010) posit that the contribution of SMEs in the achievement of nations' macroeconomic goals in developing countries has in recent years been the center of attention to scholars in the entrepreneurship academic discipline. SMEs thrive, grow and survives in a complex environment globally and this form a basis for an important objective that policy makers focus on in both developed and developing economies of different countries around the world. SMEs around the world are popular and widely known due to their labor intensive and utilization of local resources characteristics. The contribution of SMEs in economic growth nationally and internationally creates a common theme for support need.

Data related to SMEs in different countries around the world shows that SMEs dominates in both economic and industrial development for most of economies. In Japan, private companies' amounts to 6.53 million and out of the private companies, SMEs account for up to 6.47 million representing 99% of ownership. Similarly, out of 54.16 million employed citizens nationally, 41.42 million are SMEs employed representing 76.5% of total employment. SMEs importance in all member states of European Union is overwhelming and especially in Austrian economy where 99.8% of enterprises is accounted by SMEs (Muller *et al,* 2015). According to Kimiyu and Omiti (2000), SMEs occupy 97.5% of all enterprises while in the manufacturing sector, large-scale enterprises (LSEs) account for 2.5%. In most African countries, the role of SMEs as economic and industrial development engines have been recognized by many governments. In Kenya, SMEs contribution to GDP has shown continuous increase of up to 40% in 2008 from 13.8% shown in 1993(Afande, 2015). According to Economic Survey (2015), SMEs sector provided 80% of employed and further contributed to creation of over 90% new jobs in 2015.

Tien *et al* (2014) are of the view that the importance of entrepreneurship in economic growth has been accelerated by the prevailing spread of globalization and capitalism. Statistics have shown that a rapid economic growth can only be achieved by increasing and supporting entrepreneurs within the society. The SME sector is associated with entrepreneurship and the contribution role the sector plays in growth of economy has been acknowledged widely. According to Giaotzi, Storey and Nijkamp (2016), many economies have SMEs as major components. This has led to formulation of entrepreneurship development policies by governmental and non-governmental and multilateral agencies. Globalization has contributed to increased competition pressure for SMEs around the world. Additionally, the dynamic characteristics of customers worldwide make it difficult for SMEs to improve and maintain business performance. The existing competition and dynamic customers facing SMEs calls for measures that will manage the two pressures for SMEs to achieve performance.

Implementation of entrepreneurial mindset among SMEs that will enable entrepreneurs to identify threats and discover opportunities in business operation environment will play a role in ensuring future survival and existence of SMEs (Mutalemwa, 2015). A survey by Lloyds on SMEs revealed that in attempt of securing new businesses, a large number of SMEs (70%) adopts a sustainable approach while those adopting sustainability with the aim of saving money were 54%. Despite sustainability having altruistic motives, it adds to being a smart business due to its ability of delivering high profits in short and long term. According to AICPA (2013), a sustainable business is characterized by efficiency, having a resilient enterprise model and the ability of generating reliable flow of cash. Sustainable growth of SMEs has been linked to adoption of technology. Some scholars for instance, Awa, Ojiabo and Emecheta (2015) argue that adoption of new technology in businesses enhances long-term strategies and managerial competencies of SMEs. Christensen (2013) argues that the need of firms to gain competitive advantage over potential and existing competitor and to enhance firm's performance necessitates adoption of new technologies. Survival demands of firms due to rapid environmental changes in business operations triggers firms to change their business model. Firms can avoid competitors or acquire change advantage by undergoing management processes that are strategic and aims at answering the question of the firm's position in internet connection matters (Afua *et.al*, 2011).

In its report, UNCTAD (2015) confirms existence of substantial benefit in enterprise growth as evidenced by e-business. Internet as a new technology transforms business sectors economically by creating an avenue that allows better and faster execution of business activities. With the increased use of mobile money transfer, Kenyan businessmen and individuals are now paying for their electricity and water bills as well as honoring other obligations (for instance paying for goods/services delivered/rendered). Sharma *et al* (2018), agrees that by using e-banking, SMEs have the capability of applying for credit cards, mortgages, loans and lines of credits without necessarily visiting banks for such transactions. Saridakis, Lai, Mohammed, and Hansen (2018) agrees that SMEs that utilize available online services in operations earn high profits and revenues as compared to the SMEs utilizing traditional channels. Internet provides SMEs with grounds for conducting researches on interest rates, banking products, banks' terms and conditions and in choosing lenders who can fully meet the SME needs and expectations. E-banking is preferred by customers due to speed, 24 hour services and accessibility of accounts from any region worldwide (Cheng *et al*., 2016). E-banking enables lenders to simultaneously view, process and authorize loan applications from borrowers hence saving them from waiting for long (Al Nahian Riyadh, Akter, & Islam, 2009).

STATEMENT OF THE PROBLEM

SME contribution to economic sector worldwide can't be ignored. In Austria for instance, SMEs contribute up to 75% of all the jobs while in Japan they contribute up to 76.5% of the employment. In Kenya, KNBS (2015) report indicated that employment by the informal sectors of SMEs increased to 15,160.8 in 2015 from 14,319.2 in 2014 which represents a 5.9 % increase. The report also indicated an increase in job creation by the informal sector of SMEs to 713600 jobs in 2015 from 696900 jobs in 2014 which represented 84.8% of the total jobs created. The SME sector contributed 5.9% increase in employment creation as compared to public sector which contributed only 2.5%. The SMEs sector is therefore important for Kenya's economy (KNBS, 2015). Despite their importance to the growth of economy, SMEs are currently facing survival threats and stiff competitive challenges despite being at the center stage in the economic development of many countries. A research by the World Bank indicated that SMEs sector in Kenya is characterized by high mortality rate (World Bank, 2014).

Further, studies by Bowen, Morara and Mureithi (2009) found out that for every 5 SMEs started, 2 SMEs fail within their initial operation period and over 60% fail each year (KNBS, 2015) ; and most do not survive to their third anniversary. The reasons for their failure are mixed ranging from internal and external factors. However, UNCTAD (2011) report linked better performance and growth of SMEs to adoption of new technology such as e-banking. Currently, half of banks transactions are e-based and the process continues to increase incredibly (Kaur, 2013). Business enterprises can strategically position themselves by engaging a development tool of trade if they adopt e-banking because it will lead to low labor costs as well as reduce inefficiencies. Rikta (2015) revealed that SMEs that operate online businesses earn high revenues and are profitable than those applying traditional business channel. The advantages associated with e-banking such as remote account access, speed, conveniences and round the clock service contribute to customers to prefer e- banking.

With the realization that technology has a great potential for economic growth, the government of Kenya has committed itself in providing an enabling environment for its growth through initiatives like zero-rating ICT equipment, laying the under-sea fiber cable and establishing legislation for instance Communication Act 2008 (Wanyonyi, & Omwenga, 2010). Despite this importance of ICT technology that spearheads e-banking, the growth of SMEs has remained slow and the failure rate has increased in the recent years. According to Richard (2016) a significant number of Kenya's firms are however ignorant of technology and are unaware of its importance in conducting business, even in this era of globalization. Furthermore, Odhiambo (2013) argued that Africa's MSMEs have not fully realized the potential benefits found in tapping emerging technologies in electronic business and this has made them lag behind most of world's economies. Previous studies have mainly indicated that the determinants of growth of SMEs are macro-economic factors for instance GDP, inflation as well as bank lending rates (Tambunan, 2008) and micro economic factors such as leadership, availability of capital and business culture (Bekeris, 2012) with little focus on e-banking strategy. The study sought to fill the existing knowledge gap by establishing effects of e-banking strategy on growth of SMEs enterprises in hospitality industry in Nairobi County, Kenya.

OBJECTIVE OF THE STUDY

To determine the influence of mobile banking on growth of SMEs in the hospitality industry in Nairobi County, Kenya

LITERATURE REVIEW

Theoretical Literature Review

This study was guided by the Resource Based View Theory and the Innovation Diffusion Theory.

Resource Based View (RBV)

Wernerfelt (1984) developed the RBV theory which was advanced by Barney (1991) as a basis where firms competitive advantages primarily revolves around the resources , either tangible or intangible, a firm have at its disposal. RBV theory states that to transform a competitive advantage in short-run to a sustained long term competitive advantage, requires the resources at disposal to be naturally heterogeneous as opposed to perfect mobility. Consequently, the theory calls for the resources to be valuable with no close substitute or imitation. A firm's competitive advantage is sustained above average when the above conditions on resources are held. According to Barney (1991) the approach of RBV has recently evolved from a perspective that was nascent and upstart to a powerful and prominent theory that aims at predicting and explaining relationships in organizations.

Zhu and Kraemer (2005) asserts that the theory offers an explanation of the value created by technology. The RBV theory agrees that improvement of a firm's performance is attributed to valuable resources that a firm has at its disposal. (Barney 1991, Peteraf 1993). ICT application in firms results to improvement in performance leading to advantaged competition due to its ability of affecting processes and resources. This calls for application of dependent variables at intermediate levels by researchers in projects, business process and department levels. (Wade & Hulland, 2004). The major dimensions of performance improvement in the supply chain as a result of ICT adoption are cost reduction and revenue generation (Mukhopadhyay & Kekre, 2002). The improvements resulting from RBV, stem from resource synergy. Some researchers have adopted RBV theory in explaining value creation in electronic transfers. The main purpose of formulation was to help in understanding how organizations manage to achieve advantages in competition. RBV was developed to facilitate understanding of how organizations achieve competitive advantages; the theory concludes that the unique resources at the core of a firm generate its competitive advantage where e-technology is one of the unique resources (Opiyo, 2017).

Innovation Diffusion Theory

The theory was proposed by Rogers in 1983 and explains technological diffusion process as a result of uncertainty dictation brought about by competition amongst the small and medium enterprises. Therefore, SMEs need to be innovative so as to be relevant in the market. Despite the fact that innovations offers its adopters novel tactics of handling competition from the financial organizations, there still exist obstacles in the adoption process as to the superiority of new ways over the existing ones. Diffusion is the activity of disseminating information about a new technology through a given communication channel in order to inform a population about the new technology (Rogers, 1995). Therefore, the innovation diffusion theory argues that a user makes the decision to adopt a technology strategy as a result of the information they have received about the technology (Babbie & Benaquisto, 2009).

According to Rogers (1995), IDT is made up of five characteristics. Relative advantage is the extent to which new technology supersedes the technology it's replacing. Relative advantage is one of the factors that determine innovation adoption (Babbie & Benaquisto, 2009). Compatibility according to Babbie *et al* (2009) is the degree to which a technology is viewed to be matching potential users' existing values, requirements and past experiences. Trial-ability defines the level to which technology can be tried and tested in a given environment. In terms of factor complexity, IDT and TAM Additionally, in terms of the complexity factor, TAM and IDT urgues that individual's intention formation in technology usage is partially determined by how difficult the technology is to understand or use (Rogers, 1995).

Empirical Literature Review

A study by Yuan, Liu, Yao, and Liu (2016) sought to establish how e-banking affected growth of SMEs by using primary data. The findings revealed a significant correlation between internet customer capital characterized by customer trust, customer loyalty, customer databank and customers' complaint analysis and internet service capital characterized by knowledge databank, security of transaction, speed of transaction check, diversity of services and stability of system. A study by Anderson, Strand and Collins (2018) sought to establish electronic banking impacts on banking transactions using a cost-benefit analysis. The paper focused on electronic banking expenditure, computerization and electronic transactions. The study noted existence of a swing to electronic transactions from paper-based transactions where a drastic escalation of electronic transactions which earns a business a triple rate is noted.

The research also noted that per transaction value added up to 168 times that of per transaction cost indicating sound returns. The effect of transactions on value and cost was evaluated through correlation coefficient which revealed a significant and positive impact on value and cost from electronic banking. Monge-González and Tacsir (2014) conducted a study to establish internet banking impacts on SMEs performance which applied a randomized controlled experiment in Costa Rica. The results of the data collected through group surveys revealed a limited usability of internet in daily operations of SMEs due to limited computer accessibility and low internet services penetration in employees' activities. Additionally, low levels of internet uses amongst firms hindered penetration. The results obtained contradicts the reported benefits from firms in a small group which included higher sales, better contact with customers and reduced costs. Feraro-Banta (2014) conducted a study on the assessment of e-banking services in Islamic Banks focusing on Bahrain's Perspective. The study used both quantitative and qualitative research design with application of semi structured interviews and questionnaires. A sample of 200 customers of the bank was acquired through quota sampling. The results of the study revealed existence of e-banking services associated with credit card and loan application, payment of bills, transfer of funds and personal accounts. However, there was a difficulty in adoption of the technology strategy since customers found difficulties in the process of executing e-banking services as it required filling a lot of information when applying for loans and credit cards and at the same time long processing time of loans.

CONCEPTUAL FRAMEWORK

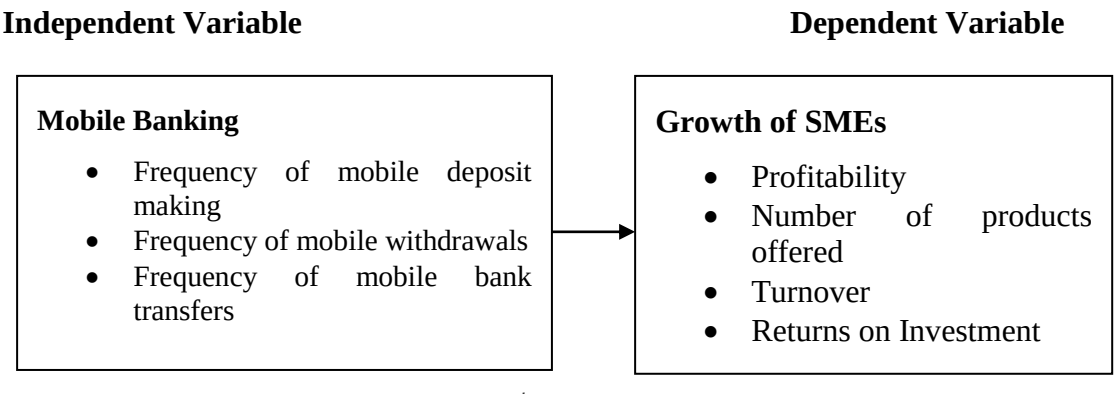

Figure 1: Conceptual Frame Work

RESEARCH METHODOLOGY

The study adopted an explanatory research design. The study target population included 183 licensed hotels operating in Nairobi County, Kenya as presented by the Micro Small and Medium Enterprises report (2016) and the Nairobi County Trade and Commerce department report (2016). This study conducted a census on all the 183 licensed hotels in Nairobi County. A census is suitable for a population size less than 200 units (Singh & Masuku, 2014). The study used primary data. The quantitative primary data was collected using closed ended questions. Before using the questionnaire, the study conducted a pilot test on 5% of the target population to establish the reliability and validity of the questionnaire. Internal consistency was established through Cronbach Alpha at a threshold of 0.7. After the data had been collected, it was analysed through the Statistical Package for Social Sciences (SPSS) version 24.

The strength of relationship between independent and dependent variables was evaluated by use of Pearson correlation coefficient. Univariate regression model was also adopted to determine the relationship between the variables. The regression model was:

$$\mathbf{Y= \beta_0+ \beta_1 X_1 + \varepsilon}$$

Where: Y is the dependent variable (Sustainable Growth of SMEs), X_1 is Mobile Banking, β_0 is the regression constant or intercept, β_1, is the unknown parameter (regression coefficient) and ε is the error term,

RESULTS AND DISCUSSIONS

The study targeted the 183 licensed hotels operating in Nairobi County, Kenya out of which only 132 were responsive to the study. This was satisfactory for analysis and generalization of study findings since it gives a response rate of 72.13% that is satisfactory based on the suggestions by Mugenda and Mugenda (2012) that a response rates above 50% is appropriate for generalization.

Reliability Analysis

This study used a pilot study to determine reliability of the questionnaire used for data collection. A total of 9 respondents were included in the pilot study. Reliability analysis was done using Cronbach's Alpha. A Cronbach Alpha value of 0.7 was the threshold for reliability. The Cronbach alpha values for each variable was greater than 0.7 as indicated in Table 1.

Table 1: Reliability Test

Scale	Cronbach's Alpha	Number of Items	Comment
Mobile Banking	0.801	5	Reliable
Sustainable Growth of SME	0.833	5	Reliable

Descriptive Results and Analysis

Respondents were asked to indicate the extent to which mobile banking influenced growth of SMEs in the hospitality industry in Nairobi County based on a scale of 1-5 where 1 = Very Small Extent, 2 = Small Extent, 3 = Moderate Extent, 4 = High Extent and 5 = Very High Extent. The results on the rating are presented in Table 2. The findings of the study on internet banking showed that majority of the respondents (mean=3.89) indicated that the firm uses mobile phones to obtain banking services to a high extent. The standard deviation value of 1.31 showed low spread in responses provided to this statement. The average responses as indicated in Table 4.3 also shows that majority of the respondents (mean=3.65) indicated that the firm uses mobile phones to make bank savings to a moderate extent. The standard deviation value of 1.35 also showed low spread in responses provided to this statement. On whether the firm uses mobile phones to collect receivables (Pay bill), the findings show that a good number of the participants (mean=3.86) indicated that their firms use mobile phones to collect receivables to a high extent. On whether the firm uses mobile phones to withdraw money from their accounts, the findings show that majority of the respondents (mean=3.59) indicated moderate extent. There was low variation in responses provided to this statement (1.35).

The average responses as indicated in Table 4.3 further showed that majority of the respondents (mean=3.64) indicated that the firm uses mobile phones to obtain bank statements with the standard deviation value of 1.22 showing low variation in responses. On average, majority of the respondents indicated that mobile banking influenced growth of SMEs in the hospitality industry in Nairobi County to a high extent. These findings are consistent with the findings of a study by Yuan, Liu, Yao, and Liu (2016) which revealed a significant correlation between mobile customer capital characterized by customer trust, customer databank and customers' complaint analysis which enhances security of transactions, speed and diversity of services resulting to better performance.

Table 2: Descriptive Results of Mobile Banking

Statement	Mean	Std Dev.
The firm uses mobile phones to obtain banking services	3.89	1.31
The firm uses mobile phones to make bank savings	3.65	1.35
The firm uses mobile phones to collect receivables (Pay bill)	3.86	1.33
The firm uses mobile phones to withdraw money from their accounts	3.59	1.35
The firm uses mobile phones to obtain bank statements	3.64	1.22
Average	**3.73**	**1.31**

The study also determined the growth of SMEs in the hospitality industry in Nairobi County in terms of market share, revenue, reliable cash flow, turnover and returns on investment. Table 3 shows that majority of the respondents (mean=3.89) indicated that the business has experienced an increase in the market share since its inception to a moderate extent, the business has experienced an increase in revenue since its inception to a moderate extent (mean=3.73), the business has continued to experience a reliable cash flow to a moderate extent (mean= 3.80), the business has continued to experience high turnover (mean=3.85) and that the business has continued to experience high returns on investment (mean=3.87). On average, majority of the respondents indicated moderate sustainable growth of the in the hospitality industry in Nairobi County. The findings of the study agree with the study findings of Mwihaki (2015) that low uptake of technology and research strategies highly hinder the sustainable growth and product development.

Table 3: Descriptive Results on Sustainable Growth of SME

Statement	Mean	Std Dev.
The business has experienced an increase in the market share since its inception	3.89	1.13
The business has experienced an increase in revenue since its inception	3.73	1.36
The business has continued to experience a reliable cash flow	3.80	1.32
The business has continued to experience high turnover	3.85	1.14
The business has continued to experience high returns on investment	3.87	1.19
Average	**3.83**	**1.23**

Correlation Analysis

The study conducted a correlation analysis to establish the association between mobile banking and sustainable growth of SMEs. Pearson correlation coefficient was used. The study findings on correlation are as presented in Table 4.

Table 4: Correlation Analysis

		Mobile Banking	Sustainable Growth
Mobile Banking	Pearson Correlation	1	
Sustainable Growth	Pearson Correlation	.690**	1
	Sig. (2-tailed)	0.000	
	N	132	132

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

As shown in table 4, the results indicated a positive and significant relationship between mobile banking and sustainable growth of SMEs in the hospitality industry in Nairobi County (R= 0.690, Sig <0.05). This implies that an improvement in various indicators of mobile banking results to significant improvement in sustainable growth of SMEs in the hospitality industry in Nairobi County. Therefore an improvement in the use of mobile phones to obtain banking services, make bank savings, collect receivables (Pay bill), withdraw money and obtain bank statements results to sustainable growth of SMEs in the hospitality industry in Nairobi County. The results agree with the findings of Anderson, Strand and Collins (2018) who noted existence of a swing to mobile transactions from paper-based transactions that resulted to increased number of transactions hence growth of the business. The effect of transactions on value and cost was evaluated through correlation coefficient which revealed a significant and positive impact on value due to mobile banking.

Regression Analysis

The study also used a univariate regression model to establish the effect of mobile banking on sustainable growth of SMEs in the hospitality industry in Nairobi County, Kenya. Table 5 depicts that the R-Square value was 0.477. The results imply that mobile banking accounts for 47.7% of the variation in sustainable growth of SMEs in the

hospitality industry in Nairobi County. Results in Table 5 also showed that the overall significance of the model is significant at 5% (p= 0.000) showing that the model was significant. The model significance results imply that mobile banking is a suitable predictor of sustainable growth of SMEs in the hospitality industry in Nairobi County. The results further showed that mobile banking positively and significantly influenced sustainable growth of SMEs in the hospitality industry in Nairobi County (Beta = 0.754, Sig= 0.00). This implies that a unit improvement in the use of mobile banking to obtain banking services, make bank savings, collect receivables, withdraw money and obtain bank statements results to 0.754 unit improvement in sustainable growth of SMEs in the hospitality industry in Nairobi County. The results are consistent with the findings of a study by Yuan *et al.* (2016) which revealed a significant correlation between mobile customer capital characterized by customer trust, customer databank and customers' complaint analysis which enhances security of transactions, speed and diversity of services. The inferential analysis on Tables 4.9 on the effect of mobile banking on sustainable growth of SMEs in the hospitality industry in Nairobi County provides the following optimal regression model:

Sustainable Growth = 1.019 + 0.754 Mobile Banking

Table 5: Regression Results

R	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**		
0.69	0.477	0.473	0.75793		
	Sum of Squares	**df**	**Mean Square**	**F**	**Sig.**
Regression	68.051	1	68.051	118.463	.000
Residual	74.679	130	0.574		
Total	142.731	131			
	B	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	1.019	0.266		3.825	0.000
Mobile banking	0.754	0.069	0.69	10.884	0.000

Dependent Variable: Sustainable Growth
Predictors: (Constant), Mobile Banking

CONCLUSIONS

The study concluded that mobile banking has a positive and significant effect on the sustainable growth of SMEs in the hospitality industry in Nairobi County. The use of mobile banking to obtain banking services, make bank savings, collect receivables, withdraw money and obtain bank statements improves sustainable growth of SMEs in the hospitality industry in Nairobi County.

RECOMMENDATIONS OF THE STUDY

Based on the findings that mobile banking significantly improves the sustainable growth of SMEs in the hospitality industry in Kenya, the study recommends the SMEs in the hospitality industry as well as other industries to consider adoption of mobile banking to obtain banking services make bank savings, collect receivables, withdraw money and obtain bank statements to a higher extent.

Conflict of Interest

No potential conflict of interest was recorded

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