

Research Article

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## Assessment of the influence of mobile money facilities on working capital management of small and medium enterprise within Meru town CBD Kenya

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### Abstract

Mobile money services were launched in Kenya in 2007 bringing with it great benefits to SMEs. As a result, money transfer services became available, affordable and accessible as compared to the traditional banking system. Notable advantages of mobile money technology include; depositing, paying bills, banking, saving and checking account balance at convenient time to allow easy access to cash when needed. It is within this context that this study sought to assess the influence of mobile money facilities on working capital management of small and medium enterprise within Meru town central business district (CBD) Kenya. The study adopted descriptive research design. The target population was 287 small and medium enterprises registered to operate within Meru town CBD. Data was collected using questionnaires and data analysis and presentation was executed using descriptive statistics with the help of statistical package for social sciences (SPSS). The study concluded that, the main motivation for using mobile money services in management of working capital by small and medium enterprises (SMEs) owners was to receive payment from their clients, borrowing credit from Financial Institutions, saving, accessing the SMEs saving in banks and receiving bank statements.

### Keywords

affordable,  
accessible,  
mobile money,  
capital management.

### Introduction

FSD Kenya (2008) defines SMEs as businesses with six to 50 employees or with annual revenues less than 50 million Kenyan shillings. Nyangori (2012) observe that the SMEs sector has continuously experienced growth thereby becoming a key sector in the economy of the country as well as creating most of the new jobs. Ngaruiya et al (2014) states that SMEs constitutes 98% of all businesses in the country and absorbs a high

population of school, college and university leavers and contributed over 50 percent of new jobs created in the year 2005. Despite of this growth, it is generally recognized that SMEs face various challenges which affect their growth and profitability and hence, diminish their ability to contribute effectively to sustainable business growth and development in Kenya. Some of these challenges include delayed payment, poor debt

collection, technological changes, lack of affordable credit and financial services to facilitate business transactions and business growth (Bowen *et al.*, 2009). Lennart and Bjorn (2010) note that cash-flow management is a key bottleneck for small and medium enterprises operations.

Global research on mobile money services indicates that access to money services through mobile money leads to poverty reduction and financial inclusiveness. According to World Bank, (2012), increased mobile money uptake in developed and developing countries is correlated with a 0.8% increase in economic growth. According to Lennart and Bjorn (2010), the fast diffusion of mobile money transfer was viewed as a potential key tool for facilitating financial transactions. The range of mobile money services the SMEs can benefit from includes mobile money transfers, mobile ATMs, mobile ticketing, mobile vouchers, loyalties and coupons, content purchases and deliveries, information services, mobile banking, mobile purchases, mobile marketing and advertising (Njenga, 2009).

Despite all the attention, mobile money services has received, there is little quantitative evidence on its impacts on the working capital management of SMEs. The expansion and widespread cellular communication and the ability to transfer money instantly, securely, and inexpensively are together leading to enormous changes in the organization of economic activity and the working capital among other things. Morawczynski and Pickens (2009) observed that Mobile money service users sent smaller but more frequent remittances, which resulted in overall larger remittances to SMEs. Morawczynski and Pickens (2009) observe that users often keep a balance on their Mobile accounts, thereby using the system as a rudimentary bank account despite the fact that the system does not provide interest. In addition, Vaughn (2007) notes that some individuals stored money in M-Pesa due to safety considerations, especially when traveling across the country. M-Pesa has enabled small businesses to expand and grow and has also increased the circulation of money in small businesses. There is a need to find out how the use of mobile money has affected the working capital of their businesses.

Management of Working capital of SMEs is important for growth and success of any enterprise since it ensures good solvency and liquidity of the firm. Whereas there is a general thought as to how mobile technologies can be applied in business, very little has been done in exploring the contribution of mobile phone money transfer services on the management of working capital

by the SMEs. This is because it is not exactly known to what extent mobile money transfer services have influenced the management of working capital. This study sought to assess how mobile money facilities influences working capital management of SMEs within Meru town CBD.

## Materials and Methods

In this study, the researcher used descriptive research design to assess the influence of mobile money transfer services on working capital management of SMEs within Meru town CBD. This helped the researcher gather both qualitative and quantitative data on how mobile money qualities, mobile money uptake and mobile money facilities influences the working capital of SMEs within Meru town CBD. Through this design the researcher linked mobile money qualities, mobile money uptake and mobile money facilities to working capital management. The study area was the Central Business District of Meru town, Kenya. The study target population used in the present research consisted of 287 small and medium enterprises registered to operate within Meru town CBD. The sample consisted of 66 small and 20 medium enterprises giving a total of 186 respondents. A questionnaire was used as a research instrument to ensure that the data was well interpreted to reflect the views of respondents regarding the topic of study. Pre-testing of the research instruments was done in Nkubu town among 17 SME owners from different sectors prior to the commencement of a study. In this study, the researcher employed split-half technique to calculate reliability. The results of the Pearson Product Correlation co-efficient turned out to be above 0.75, and hence the instrument was deemed highly reliable. To ensure validity of the research instrument, the questionnaires were reviewed with the help of the supervisors to determine its relevance to the topic under study. IBM's Statistical Package for Social Sciences (SPSS) version 21 was used to process quantitative data using descriptive statistics.

## Results

The results of the study indicated that there were more male at 53.2% of the respondents than female respondents who were represented by 46.8%. This implies that the male gender dominated ownership of the majority of the Small and Medium Enterprises. The study also established that majority (32.9% ) of the respondents were diploma holders , of 26.6% degree holders , 19.0% were secondary school graduates while

2.5% were primary school leavers. This finding shows that most of the owners of SMEs were fairly educated in line with their business.

According to the findings, majority of the respondents at 34.2% had been with the SME for 6 – 10 years, followed by 26.6% of the respondents for 1 – 5 years. Those at 10 – 15 years were represented by 15.2% of the respondents, while above 15 years by 13.9% of the respondents. Those who had been at the SME for less than 1 year were represented by 10.1% of the respondents. This implies that most of the SMEs had been in existence for some time and the owners had garnered experience for day to day running of the business.

Majority of the respondents at 63.3% indicated that they had 1 – 10 employees, followed by 11 – 20 employees at 24.1%. 21 – 30 employees were represented by 10.1% of the respondents while 2.5% of the respondents had 31 and above employees. This implies that most of the sampled businesses were Small Enterprises.

The researcher asked the respondents to indicate if they had been previously trained on any entrepreneurship skills. Majority of the respondents were trained represented by 53.2% while 46.8% of the respondents had not been trained. This indicated that a sizeable number of SMEs felt they lacked enough entrepreneurial skill for management.

The study found out that majority of the respondents at 46.8% had used mobile money service for a period of 1 – 5 years. Table 4.7 also shows that 29.1% of the respondents had used money service for less than one year while 24.1% of the respondents had used for 6 – 10 years.

The study established that mobile money service was very useful in management of working capital. Overall, 92.4% of the respondents agreed that mobile money service was very useful in management of working capital. Only 7.6% of the respondents indicated that mobile money service was not at all useful in management of working capital.

The study established that 53.2% of the respondents indicated that their main motivation to using mobile money services in management of working capital was to receive payment from their clients. This was followed by efficiency to pay bill at 29.1% of the respondents. The study revealed that 89.9% of the respondents agreed that mobile money services helped in depositing money

in mobile account. In addition, 86% of the respondents agreed that mobile money services helped in borrowing credit from Financial Institutions. Furthermore, the study established that 82% of the respondents agreed that mobile money services helped in accessing their saving in banks through mobile. Lastly, 91% of the respondents indicated that mobile money services helped in viewing recent mobile money transactions.

The study established that majority (78%) of the entrepreneurs were very satisfied with mobile money facilities. The most preferred mobile money service was M-pesa (57%), followed by Airtel money (32.9) and then followed by PesaPap at 8.9%. Pata Cash was the least preferred mobile money service at 1.3% among the entrepreneurs.

## Discussion

The study established that the main motivation for using mobile money services in management of working capital by SMEs owners was to receive payment from their clients. This implies that SMEs owners use mobile money to manage cash flow from clients. Thus, since cash from the clients constitute current assets that need to be managed through working capital management as argued by Deloof (2003), it can be argued that mobile money services are a valuable aspect in the working capital management. This finding also seem to help point to Deloof (2003) argument that it is essential for business to keep records of their working capital to avoid becoming insolvent. This is because cash received through mobile money services could be traced and recorded appropriately in the books even after some time.

Wang (2002) argues that the task of the financial manager in managing working capital efficiently is to ensure sufficient liquidity in the operation of the enterprise. The liquidity of business firm is measured by its ability to satisfy short-term obligations as they become due. The fact that this study established that mobile money necessitates efficiency payment of bills is an indication that the service helps in ensuring the availability of sufficient liquidity. This assertion is augmented by the fact that the service is also utilized in depositing finances in bank accounts.

Inter Media (2013) reported that the majority of registered mobile money for business purposes in Tanzania used it primarily to purchase inventory and receive payments for goods and services. Higgins *et al.* (2012) also reported that with the advent of mobile

money transfers as a mode of paying bills, most organizations have welcomed and embraced this new innovation most of business has embraced mobile transfer in payment of bills, such as water service board, Kenya Power, petrol station, county council among others. Thus, the findings of this study corroborates Higgins *et al.* (2012) and Inter Media (2013) assertions. Higgins *et al.* (2012) also indicated that for smooth running of an enterprise, adequate working capital is very essential and can be achieved through efficient collection of debt/accounts receivable. The finding that SME owners utilize the mobile money services to receive payments from their clients imply that they can effectively and efficiently collect debts and pay for goods received hence ensuring better management of the working capital. The finding of this study points out that that mobile money services helped in borrowing credit from financial institutions. This could also ensure that the SME owners have sufficient working capital that can facilitated smooth running of their enterprises. Savings is the complement to credit; both enable people to accumulate capital and smooth their consumption during times of need such as unemployment or drought (Must and Ludewig, (2010). With credit, SMEs can acquire loans on savings and spread their loan repayments over time. It should be noted that savings is a form of capital accumulation which over time allows SMEs to expand their business potential and capacity. The findings of this study clearly demonstrate that use of mobile money services to save help SME owners to access credit. This could also be contributing positively on having liquid cash for running some ventures. Among published studies, financing through loans is aimed at increasing liquidity to enhance smooth running of business which includes settling debts and bills on time (Rahmat et al, 2006). Since mobile money services provide accessible means for savings through collaboration with mainstream banking institutions, this can be used as an indication of potential collateral and relationship building towards loans accessibility.

This study established that mobile money services were useful in accessing the SMEs saving in banks through mobile as well as viewing recent mobile money transactions. This implies that SME owners can access their cash without going to the bank. The convenience provided by mobile money services ensures that the business remain resilient without necessarily visiting the banks physically to access services such as bank withdrawals, savings or bank statements. This corroborates Higgins et al (2012) argument that mobile money service has made more people to have access to financial services such as savings, loans accessibility,

and payment of bills and cash deposits in mobile banking, such that the proportion of the population which is completely excluded from financial services is lower in Kenya than any other African country except for South Africa.

## Conclusion

From the study findings, it was concluded that the main motivation for using mobile money services in management of working capital by SMEs owners was to receive payment from their clients followed by efficiency to pay bills and helping in depositing money in mobile account. The study also concluded that mobile money services helped in borrowing credit from Financial Institutions since the operator had provided users with opportunities to save and borrow e-money via their wallet while earning interest as well. Furthermore, mobile money services were useful in accessing the SMEs saving in banks through mobile as well as viewing recent mobile money transactions.

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