

ROLE OF MOBILE BANKING IN ENHANCING FINANCIAL PERFORMANCE OF MICRO AND SMALL ENTERPRISES IN KENYA: A CASE STUDY OF NAKURU TOWN

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Abstract

Micro and Small Enterprises (MSEs) in the developing countries like Kenya are increasingly deploying the use of mobile payments to enhance the quality of their services and increase growth. The objective of this study was to determine the role of mobile banking in enhancing financial performance of micro and small enterprises in Nakuru town, Kenya. The specific objectives of the study included determining the role of timeliness and reliability of mobile banking in enhancing financial performance of MSEs in Nakuru town. The study applied descriptive research design. The study sampled 126 MSEs out of a target population of 1,260 using random sampling. The questionnaire was used for data collection. The data was processed and analyzed using Statistical Package for Social Sciences. Data analysis captured both descriptive and inferential statistics. The findings indicated that there exists a very strong,

significant and positive correlation between timeliness and reliability of M-banking on one hand and financial performance. It was concluded that timeliness and reliability would likely result in improved financial performance of MSEs. It is recommended that, MSEs should fully adopt M-banking because of its timeliness and its reliability.

Keywords: Financial performance, micro and small enterprises, mobile banking, reliability, timeliness

INTRODUCTION

Financial institutions and mobile network service providers have been in the process of significant transformation. The force behind the transformation of these institutions is innovation in information technology. Technology is being used by business today to enhance growth and competitiveness (Anyasi & Otubu, 2009). Firms are developing new and innovative products to be able to maintain existing customers and to attract new markets. One of the most recent technology advancement is M-banking, a platform for the delivery of financial services via the mobile phone. The convenience of mobile banking is that the banks undertake the banking transaction outside of the working hours and is accessible from anywhere and indeed has become of the customer preference.

The term mobile banking (M-Banking) is used to denote the access to banking services and facilities offered by financial institutions such as account-based savings, payment transactions and other products by use of an electronic mobile device. Mobile banking has yielded a multiple effect on the number of solutions available to clients. M-banking provides the potential of increasing efficiency of payments system and expanding access to formal financial services by those who presently lack it. Tiwari and Buse (2007) refers to mobile banking as the service offered by the banks in providing and making available banking and other financial services to their customers through mobile phones and other similar devices. Mobile Banking channel is more than a decade old now. In the initial days, Mobile usage by banking and financial world was limited to the SMS or basic banking services. However the with the advent of technology, Mobile banking channel is offering many dynamic functionalities.

Mobile banking is an innovation that has progressively rendered itself in pervasive ways cutting across several financial institutions and other sectors of the economy. During the 21st century mobile banking advanced from providing mere text messaging services to that of pseudo internet banking where customers could not only view their balances and set up multiple

types of alerts but also transact activities such as fund transfers, redeem loyalty coupons, deposit cheques via the mobile phone and instruct payroll based transactions.

In the last five years mobile phone communication has grown faster in Sub-Saharan Africa than in most other parts of the world where mobile phone penetration rate stood at 70 percent, translating to 635 million mobile subscriptions as of 2014 according to an Ericsson mobility report. To put that growth into perspective, there were less than 2 million mobile phone users in Africa in 1998 and analysts estimate that mobile subscriptions in sub-Saharan Africa will rise to 930 million by the end of 2019. In Kenya there are probably more people with mobile handsets than with bank accounts (Porteous, 2006). This has been attributed to the introduction of prepaid service and the flexibility in pricing through per second billing (Mureithi, 2005). The spread of mobile phones across the country is one of the most remarkable technology stories of the past decade and it is rapidly changing both the cost and the geography of access to financial services.

Mobile banking was introduced in Kenya in early 2007. According Central Bank of Kenya (CBK), the value of funds transacted through mobile phones in Kenya stood at Kshs. 2.37 trillion in the year 2014 following increased uptake by consumers and aggressive marketing by service providers and a total of Kshs. 8.4 trillion has been transacted through this service since its inception in the country. Currently, Safaricom command the largest share in the mobile money market. Other players are Orange, Airtel, Mobicash, Tangaza Pesa and Equity bank. It is clear that M-banking technology will make Kenya realize its vision of ensuring high levels of savings to finance overall investment needs (Kenya's Vision, 2030).

Micro, small and medium enterprises (MSMEs) 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. These firms employed 3.2 million people in 2003 and produced 18% of GDP. It is noted that cash-flow management are key bottlenecks for MSEs operations. These challenges make MSEs entrepreneurs lack financial capacity to enlarge and develop. According to Atieno (2009), most formal financial institutions consider MSEs and SMEs as less 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 MSEs.

The inception of the mobile phone financial transactions has changed how business is being done. It has made financial transactions to be easy and faster and at the same time provided a saving avenue for those without bank accounts. Economically, M-banking will help in saving money in the long run as money was spent on traveling to different places to do errands. MSEs financial transactions will start happening faster and effective since in most cases physical presence will be no longer necessary. In addition M-Banking will address and pursue

policies to make financial transactions more readily available and beneficial to the poor. Improving financial transactions amongst MSEs will help to raise household incomes and reduce poverty, it will also contribute to the realizing our national goals like vision 2030.

Statement of the Problem

The number of internet users and mobile phone penetration in Kenya has grown rapidly in the country in the last few years. According to the Communications Authority of Kenya, Mobile phones are diffusing rapidly in the country with information communication technology penetration now being at 78.2 per cent, but research conceptualizations have been lagging behind practice. Although mobile banking services are offered in most public and private banks, still many MSEs have not welcomed these services because they are not familiar with their usage and most importantly they also lack confidence in electronic systems.

Most MSEs complain of time wasted in banks, this occurs when there is power failure in banks resulting to slow down in operations. MSEs especially from the rural areas are the most affected since many formal financial institutions do not serve the poor efficiently because of several challenges, namely: dispersed demand, high transaction costs, lack of usable collateral, delay in payment of cheques requiring the drawer to wait for three days before the cheque matures and dependence of the poor on seasonal agricultural activities in Kenya (Ivatury & Lyman, 2008). Evidently, if MSEs do not welcome M-banking services, providing these services will fail. Mobile banking services has enabled facilitation and movement of money from the banking institutions to the poor members of the society in the rural and urban centers at transactions costs that are much cheaper than those offered by commercial banks, which in the process has enabled the banks to reach the unbanked resulting in tremendous growth in the banking industry (Jenkins, 2008). However, it is observed that despite the exponential growth in the use of mobile money in East Africa, only few studies have focused on its impact on the financial performance of MSEs. Consequently, there was need to find out whether MSEs (whose main target populations are unbanked), use mobile phones to transact their businesses and how the use of M-banking had affected financial performance of their businesses. Therefore, this study sought to find out the role of mobile banking in enhancing financial performance of MSEs within Nakuru County.

General Research Objective

To determine how mobile banking has enhanced financial performance of micro and small enterprises in Nakuru town, Kenya

Specific Research Objectives

- i. To determine the effect in degree of timeliness of mobile banking and enhancement of financial performance among MSEs in Nakuru town
- ii. To evaluate the reliability of mobile banking in enhancing financial performance of MSEs in Nakuru town

Research Questions

- i. What is the effect in degree of timeliness of mobile banking and enhancement of financial performance among MSEs in Nakuru town?
- ii. How does the reliability of mobile banking enhance financial performance of MSEs in Nakuru town?

THEORETICAL REVIEW

Diffusion of Innovation Theory

The Diffusion of Innovation (DOI) Theory was developed by E.M. Rogers in 1962. According to the DOI theory, an innovative idea or product gains momentum and diffuses through a specific population with the end result being adoption of the product. The key to adoption is that the person must perceive the idea, behavior, or product as new or innovative. Researchers have found that people who adopt an innovation early have different characteristics than people who adopt an innovation later.

There are five established adopter categories. Innovators, that is, people who want to be the first to try the innovation; early adopters, people who represent opinion leaders; early majority, people who adopt new ideas before the average person; the late majority, people who are skeptical of change, and will only adopt an innovation after it has been tried by the majority; and the laggards, people who are bound by tradition and very conservative.

It is posited that not all innovations are adopted and regardless of their quality, it may take time for an innovation to be adopted. Therefore, financial institutions need to be aware of the characteristics of adopter categories and recognize that resistance to change may be a hindrance to diffusion of innovations surrounding mobile and internet banking. The rate of adoption of new innovations will depend on how an organization perceives its relative advantage, compatibility, observability and complexity.

Technology Acceptance Model

Technology Acceptance Model (TAM) is one of the most researched areas in information technology, particularly in explaining the adoption of information technology systems (Park,

2009). The theory was originally designed to predict users' acceptance of ICT and usage in an organizational context. Generally, the model can be used to explain user behaviour across a broad range of end-user computing technologies and user populations (Davis, 1989).

The TAM focuses on two particular beliefs, namely, perceived usefulness (PU) and perceived ease of use (PEU) of innovation, which play an important role from the perspective of innovation acceptance behaviour. Prior empirical studies strived to explain the determinants and mechanisms of users' adoption decisions on the basis of the TAM with the conviction that the adoption process influences successful use of particular technology systems.

The TAM focuses on the attitude explanations of intention to use a specific technology or service and is a widely applied model for user acceptance and usage. Bertrand and Bouchard (2008) indicate that a number of analyses on the TAM have demonstrated that it is a valid, robust, and powerful model for studying user acceptance of innovation. The model is specifically aimed at building a foundation for understanding the effects of external factors on internal beliefs, attitudes, and intentions. In their application of TAM to study adoption of M-Banking in Kenya, Lun et al (2012) revealed that perceived ease of use, perceived usefulness, perceived self-efficacy, and perceived credibility significantly influenced customers' attitude towards usage of M-banking.

EMPIRICAL REVIEW

Timeliness Factor of M-Banking

Liu and Arnett in their study identified time factor as one of the prime factor that in e-banking service quality feature for the customers. Saving time is an important factor which influences the customers' preference to use M-banking, (Beer, 2006). Using mobile schemes can ensure such transactions are timely, relatively low cost, relatively free of risk, and auditable. However, the recipient will need to convert the payments into cash. In effect, the costs and risk involved in handling cash are shifted from the employer to the employee (Mas & Kumar, 2008). The banks started M-Banking with simple functions such as real time access to information about interest rates, checking account balances and computing loan eligibility. Then, the services are extended to online bill payment, transfer of funds between accounts and cash management services for corporate organizations (Mohammed, 2009). The fundamental advantage of the M-banking is the transfer of the information about the money's worth to any place at any time with a mouse clicks distance (Dube et al., 2009).

Small and micro businesses are among the greatest beneficiaries of using M-Pesa mobile payment. As at 31st March, 2009, there were 8,650 M-Pesa agents spread throughout the country offering the mobile payments service (Annual report, 2008/2009). The micro-

business operators go to the bank less often and spend more time running their businesses. Equally, many unbanked Kenyans can now receive or send money wherever they are in the country (Omwansa, 2009). Majority of the micro business operators are familiar with the use of the mobile payment services as they are easy to use and require no formal training before use.

Reliability Factor of M-Banking

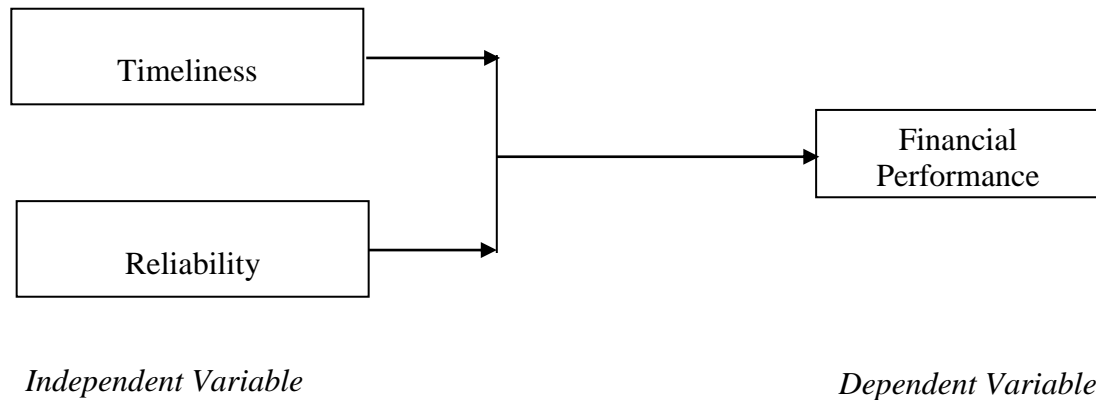
Mobile financial products allow consumers the opportunity to free themselves of many time consuming and costly activities. However, it is the interplay between mobile based financial products (such as salary payment) and the ability to withdraw cash for the system which determines the net benefit to consumers (Chakraborty, 2007). Glaessner and Klingebiel (2003) identified that for individuals, climbing the banking ladder is fundamental to greater participation in economic development. Simply reducing the risk of crime by removing the need to carry around cash is significant. Reducing the time taken to use existing services and removing some of the associated costs can also fundamentally transform people's lives. Whilst there is little systematic data on the use of mobile transactions, the anecdotal evidence is powerful.

The M-Banking service is fast, secure, and very cost-effective. It is opening up new opportunities for businesses all over Kenya as well as supporting person-to-person money transfers, or remittances, which are common in many economies where the bread winner supports an extended family, often many miles away. Njenga (2009) states that although the mobile phone balances may seem low, the fact that there are balances proves that there is storage which can be perceived as acceptance of deposits. This is a significant indication of the high value placed on the convenience associated with the use of the mobile payment services. Omwansa (2009) states that a lost or stolen mobile phone does not mean catastrophe as no one can access an M-Pesa account without a correct personal identification number (PIN). He further explains that in a country where majority of people have no bank accounts, M-Pesa provides both convenience and safety. People walk around with their virtual money knowing they can withdraw cash any time at a minimal fee. In a mobile environment, it is necessary to have perceived security and trust in the vendors and the payment system. (Siau et al., 2004; Mallat, 2007).

Lyman (2008) showed that there is some evidence that mobile transactions are transforming some traditional cash-based activities into information-based transactions. For example, there is evidence from M-PESA that delivery organizations are exploiting the SMS-based capabilities of the scheme. Instead of a truck returning to the depot with loaded with cash, all the deliveries have been paid for by M-PESA transactions. Not only does this increase

security but the additional information about payments (such as time of transaction) can be used to enhance the productivity of the delivery process.

Figure 1. Conceptual Framework



METHODOLOGY

Research Design

The study adopted a descriptive research design. Mugenda and Mugenda (2003) describes descriptive research design as a systematic, empirical inquiry into which the researcher does not have a direct control of independent variable as their manifestation has already occurred or because it inherently cannot be manipulated. Descriptive studies are concerned with the what, where and how of a phenomenon hence more placed to build a profile on that phenomenon (Mugenda & Mugenda, 2003).

Target Population

According to Zikmund (2003) a population is any complete group of people, companies, hospitals, stores, college students or the like that share some set of characteristics. The target population constituted owners of 1260 registered MSEs in Nakuru town from Nakuru town.

Sample and Sampling Techniques

Sampling design refers to a research plan that indicates how cases are to be selected for observation or as respondents (Mugenda & Mugenda, 2003). For small populations, the general rule-of-thumb is that one needs to have at least 30 respondents but for bigger populations, a representative depends on the mode of selection and according to Gay (1981) a sample of 10% is representative. From the target population of 1260 a sample size of 10% was taken giving a respondent base of 126 MSEs. This sample size is considered representative and

comprehensive in the coverage of the study objectives and economical in terms of time and money.

Data Collection Instrument

Structured questionnaires were used to obtain data from the respondents. The questionnaires incorporated closed-ended questions. According to Cooper and Schindler (2008), the questionnaire is conveniently used because it is cheaper and quicker to administer. To ensure success, the questionnaires were short and simple, with questions moving from easy to more difficult one. The questions captured data in line with the study objectives.

Pilot Testing

A pilot study was conducted to evaluate the validity and reliability of the research instrument. The purpose of pre-testing was to assess the clarity of the items on the instrument so that those items found to be inadequate in measuring the variables could either be discarded or modified to improve the quality of the research instrument. The pre-test affords an opportunity to check whether there are any ambiguous or biased questions (Zikmund, 2003). A pilot study was undertaken in Nakuru town prior to actual study. The questionnaire for the study was first pre-tested using 10 MSEs drawn from the Ministry of Industrialization database. The 10 MSEs were selected using random sampling techniques to assist in ensuring the flow and ease of administration of the instrument. Necessary modifications were made on the instrument before it is finally used to collect data for the study. Once the pilot phase was completed, the questionnaires were distributed to the intended population.

Data Processing and Analysis

Data analysis refers to examining what has been collected in the survey and making deductions and references. It involves uncovering underlying structures, extracting important variables, detecting anomalies and listing any underlying assumptions. (Kombo & Tromp, 2006). After collecting the data from the field, the researcher edited the data to ensure that the questions had been properly, correctly answered and consistently. The data was analyzed using both descriptive and inferential statistics whereby the Statistical Package for Social Sciences (SPSS) tool was employed. Frequency, mean, mode and percentages were used for descriptive statistics. Tables and figures were used in presenting the findings. The frequency distribution tables were used to tabulate data to show percentages calculated. The Pearson's coefficient was used to establish the relationship between the variables.

EMPIRICAL RESULTS

Descriptive Findings for Timeliness of Mobile Banking

The researcher sought the views of the sampled respondents regarding timeliness in MSEs in Nakuru town. Table 1 illustrates the results of the study findings.

Table 1: Descriptive Statistics for Timeliness of Mobile Banking

	Min	Max	Mean	Std. Dev
i. Banks are close to our premises.	4	5	4.74	.444
ii. It takes considerable amount of time to transact in the banking hall.	4	5	4.52	.431
iii. Transaction via mobile phone is significantly fast.	4	5	4.81	.270
iv. Transaction using a cell phone is far much faster than transacting in a banking hall.	4	5	4.64	.411
v. Mobile banking is preferable to visiting the bank due to its accessibility.	4	5	4.78	.338
vi. Mobile banking allows our firm to access banking services anywhere anytime.	4	5	4.69	.444

According to the findings, all respondents strongly agreed (mean \approx 5.00) that commercial banks are close to their premises; it takes considerable amount of time to transact in the banking hall; transaction via mobile phone is significantly fast; transaction using a cell phone is far much faster than transacting in a banking hall; mobile banking is preferable to visiting the bank due to its accessibility; and that mobile banking allows firms to access banking services anywhere anytime. Given that the standard deviations were relatively small (std. dev. $<$ 0.500), it implied that the respondents had closely related opinions regarding timeliness of mobile banking.

Descriptive Findings for Reliability of Mobile Banking

The last aspect of mobile banking that was studied is reliability. In this light, the respondents' opinions regarding reliability of mobile banking were sought (See table 2).

Table 2: Descriptive Statistics for Reliability of Mobile Banking

	Min	Max	Mean	Std. Dev
i. Mobile banking agents are trustworthy.	4	5	4.14	.294
ii. The agents address customer's complaints and concerns as required.	2	4	3.24	.313
iii. Mobile banking is more convenient than other forms of banking	3	5	4.12	.869
iv. Mobile banking transactions are prompt.	4	5	4.74	.444
v. Mobile banking services are subject to the availability and strength of network of the mobile service provider.	4	5	4.11	.338
vi. Transaction delays negate the reliability of mobile banking.	4	5	4.54	.309
vii. There is a risk of losing money in case of a minor error during transaction.	4	5	4.88	.110

It was noted that, in general, respondents agreed (mean \approx 4.00; std dev $<$ 1.000) that, mobile banking agents are trustworthy; the service is more convenient than other forms of banking; and that these services are subject to the availability and strength of network of the mobile service provider. It was strongly opined (mean \approx 5.00; std dev $<$ 1.000) that, mobile banking transactions are prompt; transaction delays negate the reliability of mobile banking; and that there is a risk of losing money in case of a minor error during transaction. However, the respondents were indifferent (mean = 3.23; std dev $<$ 3.24) as to whether the agents address customer's complaints and concerns as required.

Descriptive Findings for Financial Performance of MSEs

Lastly, the opinions of the sampled owners of MSEs regarding financial performance in light of mobile banking were sought. The data collected regarding the same was descriptively analyzed and the findings are as illustrated in Table 3.

Table 3: Descriptive Statistics for Financial Performance of MSEs

	Min	Max	Mean	Std. Dev
i. MSEs in Nakuru town perform well financially.	4	5	4.87	.086
ii. Our firm has adopted mobile banking technology.	4	5	4.75	.237
iii. Use of mobile banking has enhanced profitability in our business enterprise.	1	5	2.91	.919
iv. Timeliness of mobile banking influences firm's financial performance.	4	5	4.61	.426
v. Demand for financial services due to use of mobile banking has boosted our enterprise's financial performance.	1	4	1.77	.713
vi. Transaction costs affect financial performance of our firm.	4	5	4.51	.464
vii. The reliability of mobile banking influences firm's financial performance.	4	5	4.77	.241

The sampled respondents strongly concurred (mean \approx 5.00; std dev $<$ 1.000) that MSEs in Nakuru town perform well financially; such firms have adopted mobile banking technology; timeliness of mobile banking influences firm's financial performance; transaction costs affect financial performance of MSEs; and that the reliability of mobile banking influences firm's financial performance. Respondents were not sure (mean = 2.91; std = 0.919) whether or not use of mobile banking has enhanced profitability in MSEs. It was disputed (mean = 1.77; std dev = 0.713) that demand for financial services due to use of mobile banking has boosted MSEs' financial performance.

Inferential Statistical Results and Discussions

This section presents the correlational results of the relationship between individual independent variables (timeliness and reliability) and the dependent variable (financial performance). The inferential findings enabled deducing of conclusions pertinent to mobile banking and financial performance of MSEs in Nakuru town, Kenya.

Relationship between Timeliness of Mobile Banking and Financial Performance of MSEs

The inferential statistical results that relate timeliness to financial performance of MSEs are illustrated in Table 4.

Table 4: Correlation between Timeliness and Financial Performance

		Financial Performance
Timeliness	Pearson Correlation	.764**
	Sig. (2-tailed)	.000
	n	113

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

According to the correlational results, it is clear that there exists a positive, strong and statistically significant relationship between timeliness and financial performance ($r = 0.764$; $p < 0.01$). The findings indicate that the greater the timeliness of mobile banking, the greater the likelihood of the concerned MSE performing better financially and the reverse is true. Essentially, it ought to be ensured that mobile banking services are as timely as possible to enable business enterprises enhance their financial performance.

Relationship between Reliability of Mobile Banking and Financial Performance of MSEs

Lastly, the researcher sought to assess the effect of reliability of mobile banking on financial performance of MSEs. The results of the correlation analysis are as indicated in Table 5.

Table 5: Correlation between Reliability of Mobile Banking and Financial Performance of MSEs

		Financial Performance
Reliability	Pearson Correlation	.786**
	Sig. (2-tailed)	.000
	n	113

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

As indicated in Table 5, reliability of mobile banking strongly and positively influences financial performance of MSEs ($r = 0.786$; $p < 0.01$). The foregoing implies that the more reliable mobile

banking to MSEs, the better the financial performance of MSEs and the reverse is true. Therefore, it is very important to ensure that mobile banking is very reliable since the same would enhance its adoption by MSEs given that these firms are likely to enhance their financial performance.

Summary

It was strongly agreed that commercial banks are close to their premises; it takes considerable amount of time to transact in the banking hall; transaction via mobile phone is significantly fast; transaction using a cell phone is far much faster than transacting in a banking hall; mobile banking is preferable to visiting the bank due to its accessibility; and that mobile banking allows firms to access banking services anywhere anytime. It was established that there exists a positive, strong and statistically significant relationship between timeliness and financial performance ($r = 0.764$; $p < 0.01$).

In general, respondents agreed that, mobile banking agents are trustworthy; the service is more convenient than other forms of banking; and that these services are subject to the availability and strength of network of the mobile service provider. It was strongly opined that, mobile banking transactions are prompt; transaction delays negate the reliability of mobile banking; and that there is a risk of losing money in case of a minor error during transaction. However, the respondents were indifferent as to whether the agents address customer's complaints and concerns as required. It was revealed that the reliability of mobile banking strongly and positively influences financial performance of MSEs ($r = 0.786$; $p < 0.01$).

It was strongly concurred that MSEs in Nakuru town perform well financially; such firms have adopted mobile banking technology; timeliness of mobile banking influences firm's financial performance; transaction costs affect financial performance of MSEs; and that the reliability of mobile banking influences firm's financial performance. It was not clear whether or not use of mobile banking has enhanced profitability in MSEs. It was disputed that demand for financial services due to use of mobile banking has boosted MSEs' financial performance.

CONCLUSIONS

The study findings led to the conclusion that, transaction via mobile phone is significantly fast; and that it is indeed faster than transacting in a banking hall. The study further concluded that mobile banking is preferable to visiting the bank due to its accessibility. More crucially, it was inferred that the more timely the mobile banking is, the greater the likelihood of MSEs performing better financially. The researcher concluded that, mobile banking services are more convenient than other forms of banking. It was also concluded that, mobile banking transactions

are prompt and that transaction delays negate the reliability of mobile banking. It was also inferred that even slight errors could result in huge losses of money. It was further deduced that the reliability of mobile banking strongly influences financial performance of MSEs in Nakuru town.

RECOMMENDATIONS

Several recommendations are put across in line with the study findings and the conclusions that were drawn from those findings. Micro and small enterprises are advised to adopt mobile banking technology due to its timeliness when transacting business. The technology will enable these firms to procure items from their suppliers and pay for the same timely. The timeliness of these services is also bound to enhance the financial performance of MSEs. In addition, the study recommends that network service providers should enhance the capacity of their networks in order to ensure that transactions carried out through the network are not delayed. Minimal delays guarantee reliability of mobile banking.

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