The Effect of Cashless Banking on the Financial Performance of Small and Medium Scale Enterprises

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Abstract

The advancement and improvement in information and communication technology has been rapid and aggressive over the last decade. Every sector of the economy is taking advantage of this change and the small and medium scale enterprises are not an exemption. This change has facilitated the evolution of the payment system from cash based to cashless. This led to the introduction of cashless policy to provide a faster and more efficient payment system. The cashless policy was met by initial criticisms and a debate among scholar whether or not the policy will have any effect on the financial performance of Small and Medium Enterprises. This study therefore investigates the effect of Cashless banking on the performance of SMEs in Zaria Metropolis. The study is cross sectional in nature and hence collected data using self- administered questionnaire to the 120 respondents. Multiple regression analysis was used to test the hypotheses formulated for the study using Statistical Package for Social Science (SPSS) version 20. The findings of the study showed that mobile banking and Point of Sales (POS) machine services have significant positive effect on the financial performance of SMEs. This study therefore, recommends that SMEs should increase the use of cashless banking platforms for better financial performance.

Keywords: *Mobile banking, POS, SMEs, Performance.*

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Background to the Study

Over the last few years, small and medium scale enterprise owners have innovatively responded to changing market dynamics by adopting innovations in their firms aimed at maximizing their returns as they minimize costs, (Makee and Willy 2014). Innovation economists Joseph Schumpeter looks at innovation as the application of better solutions that meet new requirements, unarticulated needs or existing market needs. This according to him is accomplished through more effective products, processes, services, technologies or ideas that are readily available to markets, governments or societies. Small and Medium Enterprises (SMEs) play important roles in the economic growth, which increasingly draws public attention in recent decades. The formal SME sector contributes 33 per cent to gross domestic product (GDP) and accounts for about 45 per cent of total employment in developing countries (IFC 2010 as cited in Gatuhu 2014).

Cashless banking is the new innovation in the banking sector that was brought about by our quest for digitalization and evolution of the payment system. Atanda and Alimi (2012) in their research described cashless economy as an economy where spending of money is not dependent on the carriage of money from one person to the other. It is characterized by the electronic transactions via the use of electronic enabled debit/credit cards as well as internet and mobile technology.

The cashless policy encourages the use of electronic banking tools instead of cash. Chibueze, Maxwell and Osondu (2013) opines that electronic delivery channels include internet banking, smart card banking (the use of ATM machine) and mobile or telephone banking allows individuals to check their account balances and make fund transfers using their mobile phones, also studies like that of Itah (2014) included the use of Point of Sales for payment for goods and services as an electronic means of transacting business.

E-payment systems for trading could be classified into two distinct parts; wholesale and retail payment systems. Wholesale payment consist of corporate transaction, while retail payment system include: small product quantity transactions involving consumers through the use of such payment medium like smart cards, credit and debit cards as well as online payment mediums etc.

Wizzit, a fast growing mobile banking company in South Africa and M-PESA in Kenya are helping low income Africans make financial transaction across long distance with their cell-phones, thereby reducing their travel cost and eliminating the risks of carrying cash and also avoiding most banking charges (Akintaro 2012 as cited in Makee & Willy 2014). Therefore, cashless policy is a state where there are assumed to be no transaction frictions that can be reduced through the use of money balances, and that accordingly provide a reason for holding such balances even when they earn rate of return (Woodford 2003 as cited in Wali, Wright & Reynolds 2014).

Most SMEs in Nigeria die within their first five years of existence, a smaller percentage goes into extinction between the sixth and tenth year while only about five to ten percent survive, thrive and grow to maturity (Aremu and Adeyemi 2011). White (2005) and Marlow (2005) also argue that venturing into small business is very risky and that the rate of small businesses failure in developing countries such as Nigeria is very high. Sandberg, Vinberg and Pan (2002) as cited in Akinruwa T, Awolusi O, and Ibojo (2013) described performance of SMEs as their ability to

contribute to job and wealth creation through Enterprises start-up, survival and growth. SMEs performance can be termed to be the firm's success in the market, which may have different outcomes and can be referred to as the focal phenomenon in Enterprises studies which invariably can be characterized as the firm's ability to create acceptable outcomes and actions.

Chittithaworm, Islam, Keawchanai and Yusuf (2011) Julius (2011) and Jamiya (2010) in their studies on SMEs used changes in sales, profit and assets to measure performance while Appolot (2012) as cited in Muhammed (2016) used sales growth, profitability, return on investment and market share as measures of SMEs performance.

According to Gatuhu, (2014) credit management is one of the most important activities in any company and cannot be overlooked by any economic enterprise engaged in credit irrespective of its business nature. Deteriorating credit quality is the most frequent cause of poor financial performance and condition. Financial management is the one of the main cause of SMEs failure as evidenced by results from various researches from scholars. Some of which includes Agwu and Emeti (2014), Mbonyane (2006), and Akinruwa, Awolusi and Ibojo (2013). Tang (2014) also established that company gains less profitability when it supplies trade credit. The costs associated with supplying trade credit excess the benefits. The cashless banking payment system can help SMEs manage their sales and credit collection.

But, these researches have paid little or no attention on the influence of cashless system on SMEs performance in Nigeria. Hence, the purpose of this research is to evaluate the impact of cashless system adoption on SMEs performance in Zaria. Point of sale terminals (POS) and Mobile banking will be used to measure cashless policy implementation; while profitability and sales volume will be used to measure SMEs performance. This study therefore will investigate the effect of Mobile banking and point of sales service applications on performance of small and medium scale Enterprises. Based on the above postulations the following hypotheses have been formulated;

H_{o1}: Mobile banking does not have any significant effect on the performance of SMEs in Zaria.
H_{o2}: POS services do not have any significant effect on the performance of SMEs in Zaria.

Literature Review and Theoretical Framework
This study reviewed relevant literatures on cashless policy and SMEs performance.

An Overview of Cashless Policy
Contrary to what the denotative meaning of the term cashless policy is, it does not refer to an outright absence of cash transactions in an economy but describes an economic setting where the use of cash for transaction is been minimized. It is an economic setting in which goods and services are bought and paid for through electronic media. It is defined as "one in which there are assumed to be no transactions frictions that can be reduced through the use of money balances, and that accordingly provide a reason for holding such balances even when they earn rate of return" (Woodford 2003). Obodoekwe, Eyisi, Emengini and Chukwubuzo (2014) in their research defined the cashless policy as a policy that minimizes the use of cash by providing alternative channels for executing financial transactions. As cited in Okoye & Ezejiofor (2013), Alilonuopines that a cashless economy does not mean a total elimination of cash, as money will continue to be a means of exchange for goods and services in the foreseeable future. It is a financial environment that minimizes the use of physical cash by providing alternative channels for making payments.

Therefore, the definition of Alilonu (2012) is more suitable for the Nigerian environment and will be adopted in this study because the level of technology, sophistication and literacy required by the cashless policy (near total elimination of cash) cannot be achieved immediately in Nigeria but the combination of both is achievable.

The Concept of SMEs

Small and Medium Enterprises (SMEs) play important roles in the economic growth, which increasingly draws public attention in recent decades. The specific attention on them based on their expected impact and potential contribution on broad and diversified production base, as well as their accelerative effect in achieving macro objectives pertaining to full employment, income distribution and the development of local technology (Aiden, 2013). According to Agwu and Emeti, (2014) the definition of SMEs depends mainly on the level of development of the country. In most developed market economies like the United States of America (USA), U.K. and Canada the definition criterion adopted a mixture of annual turnover and employment levels. In Nigeria, the Small and Medium Industries Enterprises Investment Scheme (SMIEIS) defines SME as any enterprise with a maximum asset base of N200 million excluding land and working capital and with a number of staff employed not less than 10 or more than 300.As cited in Charles and Babatunde (2012), SMEs were defined based on the total capital employed (including working capital but excluding cost of land) and number of employees. Micro: having not more than N1, 500,000 and less than 10 workers, Small: N1, 500, 000-N50, 000, 000 and a labour size between 10-35 workers. Medium: N50, 000,000-N100, 000,000 and 35-100 workers. Small and Medium Enterprise Development Agency of Nigeria SMEDAN (2012) also adopts dual criteria in defining SMEs in its collaborative study with National Bureau of Statistics. The study define micro enterprises as those employing less than 10 and having total assets of less than N5,000,000, small enterprises as those employing between 10-49 and total asset of N5,000,000-N50,000,000 and Medium Enterprises employing between 50-199 and a total asset of N50,000,000-N500,000,000.This study adopts the SMEDAN definition because of its recency and widespread acceptance. The employment criterion will be used in the study because it is readily available and relatively easy to get. More so, it is the most common criteria used in National SMEs worldwide (SMEDAN, 2012).

Review of Empirical literature

Mallat and Tuunainen (2008) examined the adoption of mobile payment systems by merchants and found that main purpose of mobile payment adoption is to increase sales and reduce the costs of payment processing and showed a positive influence on business sales growth. Muyiwa et al. (2013) also found that the introduction of cashless policy will contribute in reducing robbery incidences; attraction of more foreign directs investment and creation of employment. This is going to reduce the amount of money lost due to the incidence of armed robbery. Similarly, Oyewole et al. (2013) examined electronic payment systems and its impact on economic growth in Nigeria, and their study found that e-payment systems have a positive impact on economic growth in terms of real GDP per capita as well as trade per capita. Wali, Wright and Reynolds (2014)in their research examined the impact of the cashless system on user's perception and retail marketing performance in Nigeria retail sector. The study used survey instrument (questionnaire) and randomly selected 550samples as to generate data on the impact of cashless systems on user' perception and retail marketing performance in Nigeria. The study found that the two measures of cashless system have positive influence on the measures of retail marketing performance.

Adisa, Abdulrahman and Mordi (2014) in their research titled an exploratory study of the characteristics and challenges of small businesses in Nigeria investigated the major challenges facing small businesses. The study was cross sectional in nature and data was collected from respondents using questionnaires. The findings show that small businesses in Nigeria are characterized by the unemployed citizenry who opt for small business as last hope. Agwu and Emeti (2014) investigated the Issues, Challenges and Prospects of Small and Medium Scale Enterprises (SMEs) in Port-Harcourt City, Nigeria. The paper adopted a descriptive research design using 120 randomly selected registered operators of SMEs in Port-Harcourt City. Data collected were analyzed using descriptive statistics and results from the data analysis indicated that poor financing, inadequate social infrastructures, lack of managerial skills and multiple taxation were major challenges confronting SMEs in Port-Harcourt City, Nigeria. Abiodun(2014) also evaluated SMEs performance contribution and what barriers are there which make them not to contribute at their optimum.

Theoretical Framework

Rogers (1983) defined diffusion as the process by which an innovation is communicated through certain channels over time among the members of a social system. Innovation as any idea, object or practice that is perceived as new by members of the social system and defined the diffusion of innovation as the process by which the innovation is communicated through certain channels over time among members of social systems.

According to Kombe and Wafula (2015) there are four basic elements in the diffusion of innovation; innovation, communication channels, time and social system. The characteristics of innovation as perceived by individuals affect their rate of adoption of a new innovation. The first feature that affect rate of adoption is related to (perceived) relative advantage: The greater the perceived related advantage, the faster the adoption. Secondly, the desire to improve organizational performance is seen to be an enabler for technological change. This theory explains individuals' intention to adopt a technology as a modality to perform a traditional activity.

According to Rogers (1983) the critical factors that determine the adoption of an innovation at the general level are the following: relative advantage (the degree to which an innovation is perceived as better than the idea it supersedes), compatibility (the degree to which an innovation is perceived as being consistent with the existing values, past experiences, and needs of potential adopters), complexity (the degree to which an innovation is perceived as difficult to understand and use), trialability (the degree to which an innovation may be experimented with on a limited basis) and observability (the degree to which the results of an innovation are visible to others). It is concerned with the manner in which a new technological idea, artifact or technique, or a new use of an old one, migrates from creation to use. Rogers, (1983) classified users as innovators, early adopters, early majority, late majority and laggards. The adoption and use of mobile banking and POS machine has the potential to extend the limited nature and reach of the formal financial sector to the poor and rural population in Nigeria. Some studies on electronic banking (Odumeru, 2012;Ogunlowore&Oladele 2014) used this theory to explain the adoption of electronic banking and its impact on performance.

Research Methodology
Research Design
The study adopts a survey research design which is cross-sectional in nature. Primary data was collected from the population of the study using survey questionnaire. The population of the study consists of 120 registered SMEs in Zaria as provided by SMEDAN. The unit of analysis is organization as the study seeks to establish the effect of cashless banking tools on SMEs financial performance. A total of 120 questionnaires were distributed to SMEs owners in Zaria. Data collected was analyzed using multiple regression and correlation analysis.

Validity and Reliability
A pilot study was conducted in order to test for validity and reliability of the instrument. The validity of the instrument was obtained from two experts in the field of study. The items on the questionnaire were rated as relevant by the experts. Each scale item was rated in terms of the relevance of its constructs. In order to ascertain the accuracy of the measurement, the test for reliability was conducted. A total of 50 questionnaires were administrated to a segment of the population. The result showed that mobile banking has a reliability score of 0.861, POS services have a reliability score of 0.719 and SMEs performance has a score 0.827. The Cronbach Alpha for the variables was all above the benchmark score of 0.70 set by hair et al (2010).

Data Presentation and Analysis
Data was presented and analysed using correlation and regression. SMEs performance will be regressed against Mobile banking and the use of Point of Sale machine.

$$SPi = \alpha 0i + \beta_1 MBi + \beta_2 POSi + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots$$

The correlation result in table 1 shows that the relationship between Mobile banking, use of Point of Salesand SMEs performance is positive and significant.

Table 1

Correlations

		MB	POS	SP
MB	Pearson Correlation	1	.604**	.734**
	Sig. (2-tailed)		.000	.000
	N	120	120	120
POS	Pearson Correlation	.604**	1	.748**
	Sig. (2-tailed)	.000		.000
	N	120	120	120
SP	Pearson Correlation	.734**	.748**	1
	Sig. (2-tailed)	.000	.000	
	N	120	120	120

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

The table 1 above shows the Pearson correlation coefficient (r). Correlation results indicated a significant positive relationship between mobile banking and SMEs performance (r = 0.734, p<0.05) while the relationship between the use of Point of sale and SMEs performance (r = 0.748) which is also positive and significant.

Table 2

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.827[a]	.685	.679	.3844	1.586

a. Predictors: (Constant), POS, MB
b. Dependent Variable: SP

The result in table 2 above indicates that the independent variables (Mobile banking and POS) account for 68.5% (R^2= 0.685) chan] ge in the performance of SMEs operating in Zaria. It also indicates strong relationship between the variables (r= 0.827). Thedurbin-watson statistics of 1.586 indicates absence of auto serial correlation and fitness of the model.

Table 3

ANOVA [a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.375	2	.188	126.932	.000[b]
	Residual	.173	117	.001		
	Total	.548	119			

a. Dependent Variable: SP
b. Predictors: (Constant), POS, MB

The F-statistics tests the fitness of the model specified for this study, where SMEs performance was expressed as the function of mobile banking and POS. The F statistics is significant at 5% (F= 126.932, P<0.05) indicating the fitness of the model.

The findings showed that mobile banking and POS has significant positive effect on the performance of SMEs in Zaria. This means that the better the services provided by mobile banking and POS services, the higher the financial performance of SMEs in Zaria. The finding of this study is in line with that of Makee K., and Willy M. (2014) which concluded that those Micro and Small businesses using innovations in their business are in better positions than those not using innovation.

Conclusion and Recommendation
The findings showed that Mobile banking and POS has significant positive effect on the overall performance of SMEs. Therefore, this study concluded that mobile banking and POS services has increased and improved the sales volume, credit and debt management of SMEs in Zaria which in turn has an impact on their financial performance. Therefore, this study recommends that SMEs should embrace the innovation in the banking sector to take full advantage of advancement in technology to increase their financial performance.

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