

Determinants of Payment Methods on Financial Performance: a Survey of Small and Medium Enterprises in Kitale town

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Abstract- The purpose of the study was to analyze determinants of methods of payments on financial performance of small and medium enterprises in Kitale. The study was guided by the use of three theories, namely Theory of planned behavior (TPB), the Technology acceptance theory (TAM) and Diffusion of innovation theory (DOI). The study is a descriptive survey of small and medium enterprises in Kitale, with the sample population comprising all the 1510 registered small and Medium enterprises in the area that have been operating for a period of three or more years, the selection was using stratified random sampling. The data was collected by use of structured questionnaires and analyzed using frequency distribution tables and percentages. The study had a response rate of 76% with 116 questionnaires filled and returned. The cost of operation is found to be significant in influencing the financial performance of Small and Medium Enterprises in Kitale positively. The findings on the other variables of Security, Convenience and book keeping volumes have indicated that these independent variables are significant in explaining changes of financial performance of Small and Medium Enterprises in Kitale town.

Index Terms- Financial Performance, Payment Methods, Small and Medium Enterprises.

I. INTRODUCTION

Throughout economic history, businesses have had limited ways to make payments for goods and services. The set of payment options has expanded over time. Consumers went from the barter system, to using only coins, to choosing between coins and bank notes, and later to choosing between currency and checks. Much later, credit cards came on the payments scene followed by mobile money transfer schemes and e-banks (shreft, 2006).

Prior to past innovations in retail payment instruments such as cheques, credit and debit cards, the overwhelming majority of transactions were conducted with cash. Significant declines in cash usage for retail payments have prompted some observers to point to the dismal prospects for cash in light of future payment innovations (Fung et al, 2012). To understand the use of cash and other means of payment, the 2009 Method of Payments Survey by the Bank of Canada offers a clear picture of payment choice at the micro level. It showed that the use of cash reduced as the

amount of transaction increased. Fung et al (2009) explained this as a result of increased safety of non cash methods in regards to large payments, accurate recording due to secondary documentation such as bank statements and the aim to delay payments as the amounts increase. A survey conducted by the Canadian Payments Association in 2012 showed that the cash and cheques used by businesses are still predominant, but declining steadily, with cash use decreasing by 4% and use of cheques plummeting by 7% between 2009 and 2012. For Fast Moving Consumer Goods companies and firms that handle large amounts of cash, cash is expensive and inefficient. A company has to worry about protecting cash from theft, receiving fake currency, and transporting cash. All of this security, processing time and transportation entails costs.

The birth of information and communication technology (ICT) as a result of merging of computer science and telecommunication engineering, brought dramatic changes of the way business is conducted to compete in the market place and spread throughout the globe (Schneider, 2011). The combination of traditional commerce and Internet, providing opportunities for business or organizations to develop new business models to take advantages of globalization is known as electronic commerce or e-commerce.

ICT has made it possible to have electronic payment systems like debit cards, credit cards, electronic fund transfer, direct credits and internet banking. E-payment can refer to a payment system for buying and selling goods or services offered through the internet or any type of electronic fund transfer. Banks play a critical role in these e-payments as an intermediary.

Innovations and developments in the business industry have resulted in a greater variety of payment methods in regular use by business firms. In the past five years there has been rapid decline from traditional methods of payments, such as cash and cheques, towards a variety of electronic payment methods, such as debit and credit cards. According to Fung (2012), the main determinants of debit and credit card usage are in the main very similar to the motivation of use of cheques in payment, and include safety, record keeping, ability to delay payment and credit card rewards, but additional advantage that a customer can gain through the use of payment cards include their convenient speed of use and low costs for the customers. In fact, the

popularity of payment cards continues to grow with over 32% of worldwide consumer retail spending card-based. This figure has grown by an average of 7.7% since 2003 with a continuous slow migration away from cash, check, and other payment methods to electronic payments. (Zandi et al, 2013)

Electronic funds transfer (EFT) was the earliest implementation of e-commerce. Popularly known as direct deposit, is a system of transferring money from one bank account directly to another without any paper money changing hands, such as depositing salaries into employees bank accounts. EFT has expanded to refer to any transfer of money initiated through an electronic terminal, including credit/ debit smart cards, automated teller machine (ATM), electronic funds transfer at point of sale (EFTPOS), electronic data interchange (EDI) and internet banking (Deitel&Deitel, 2009).

Credit and smart cards are the most commonly used method of electronic payment (Chou, Lee and Chong, 2004) and are widely accepted by consumers and merchants throughout the world, especially in retail markets (Laudon&Traver, 2007). A credit card is a small plastic card issued to users as a method of payment for online or off-line purchases. The service provider or the commercial bank grants a line of credit to the card user, and the card user is required to pay at least a minimum amount for purchases made every month.

The adoption of cell phones has occurred at perhaps the fastest rate and to the deepest level of any consumer-level technology in history. This level of connectivity has enhanced the target population of cell money transfer providers. Mobile payment, also called electronic cash, allows a consumer to pay directly through his/ her mobile via text message. This is a payment where a mobile device (e.g. a phone or personal digital assistant (PDA)) is used at least for the initiation of the payment order and potentially also for the transfer of funds. Cell payment systems have been widely adapted developed in developing countries. In the Philippines Globe Telecom operates a mobile transfer service called GCASH, and in South Africa WIZZIT facilitates mobile phone-based transactions through the formal banking system (Ivatury and Pickens, 2006). Similarly mobile banking technologies have developed in Sudan and Ghana, and in a number of countries in Latin America and the Middle East (Mas, 2009).

There has also been gradual adaptation of mobile money transfer in Kenya, with the chief example of it being M-Pesa (M for mobile, pesa is Swahili for money) a mobile-phone based money transfer and micro financing service for Safaricom users. Other cell payment services include Airtel Money by Airtel Ltd, Yu cash by Yu ltd and Orange Money by Orange Telcom Ltd. Regardless of the competition, M-PESA is an innovation that dominates money-transfer on virtually all dimensions. Users say it is faster, cheaper, more reliable, and safer, and majority report that they would suffer significant negative consequences if it were to be shut down. (Jack and Suri, 2010)

The basis of this research is to bridge the severe lack of attention paid by businesses to means of payment which could help businesses in reducing costs of transactions, providing security of

cash and improve efficiency and relations with creditors, thus it has been conducted to find the Determinants of payment methods for effective financial performance of Small and Medium Enterprises

1.2 Problem Statement.

The modern business environment is dynamic and complex, throwing a wider range of challenges to business enterprises. This has forced the hand of businesses in innovation and invention, causing a scenario where a business is never resting on its laurels due to fear of being overtaken by competitors. Thus the modern firm is always on the lookout of endearing itself to its customers and establishing a foothold to enhance profits. As a result businesses have been at the forefront of taking up new payment methods. Online payment systems are reshaping the whole landscape of doing business (Aduda and Kingoo, 2012) However, the global use of cash payment is still endemic, especially for low-value transactions. But while cash may be convenient, it makes taxation less transparent, and it is costly to distribute, manage, handle and process. It therefore follows that; cash as a mode of payment is an expensive proposition for any business. As a result, many businesses are seeking to reduce these costs and encourage the use of non-cash payment means. This accounts for the high rate of penetration for mobile phone related services such as mobile money transfer. (Jack, Suri 2010). These have become a convenient way of doing business. However, businesses are still facing the same challenges as they were before the technological adoption, and the use of multi-faceted payment methods leads to increase in book keeping volumes and wider avenue for siphoning of funds out of the businesses. There are no existing studies that have been done to find out the impact of using these methods of payments on the financial performance of business enterprises. There has been lack of focus on investigating the factors that enhance the behavioral intention to use the payment technologies and whether the actual usage results in successful financial performance. Thus to breach that gap on the problem, the researcher will focus on the determinants of payment methods used and their impact on financial performance of small and medium enterprises in Kitale town.

Objectives of the study.

1.3.1 Overall Objective.

The overall objective was to analyze the determinants of payment methods on effective financial performance of small and medium enterprises in Kitale town.

1.3.2 Specific Objectives

- 1) To investigate the effect of cost of operation on financial performance of small and medium enterprises in Kitale town.
- 2) To establish the effect of security on financial performance of small and medium enterprises in Kitale town.
- 3) To establish the effect of convenience in operations on financial performance of small and medium enterprises in Kitale town.

- 4) To investigate the effect of Book Keeping Volumes on financial performance of small and medium enterprises in Kitale town.

2 LITERATURE REVIEW

The majority of the studies that have been conducted relate to mobile payments and the growth of mobile banking. This can be an indication of the revolution that mobile phones are carrying out on the banking industry. Furthermore there have also been studies on Internet banking.

Ching et al (2011) studied the factors affecting Malaysian mobile banking adoption from the point of an empirical analysis. This study aimed at extending the Technology Acceptance Model (TAM) to investigate mobile banking acceptance in Malaysia. More specifically, the objective of this study was to examine the relationships between constructs of perceived usefulness, perceived ease of use, social norms, perceived risks, perceived innovativeness, and perceived relative advantages towards behavioral intention in adopting mobile banking. The findings of this study revealed that perceived usefulness, perceived ease of use, relative advantages, perceived risks and personal innovativeness were the factors affecting the behavioral intention of mobile users to adopt mobile banking services in Malaysia. Meanwhile, the social norms were the only factor found to be insignificant in this study.

Tchouassi (2012) sought to find out whether mobile phones really work to extend banking services to the unbanked using empirical Lessons from Selected Sub-Saharan Africa Countries. This study sought to discuss how mobile phones could be used to extend banking services to the unbanked, poor and vulnerable population. The study noted that poor, vulnerable and low-income households in Sub-Saharan Africa countries often lacked access to bank accounts and faced high costs for conducting basic financial transactions.

Previous empirical studies support the argument that mobile money transfer is positively associated with firm-level growth. Positive effects of mobile money investments and business transaction usage on firm's growth have been demonstrated in the health care sector (Devaraj and Kohli, 2000, 2003). Similar results were found in the insurance industry where top performing firms with high premium income growth had higher mobile money transaction expense ratios and lower non-mobile money transaction costs (Harris and Katz, 1991). In addition, positive effects of mobile money transactions investment on sales growth were found among valve manufacturing firms (Weill, 1992).

Previous studies in internet banking range from Sathye (1999) study in Australia, Tan and Teo,(2000) research in Singapore, Howcroft et al (2001) study in South Africa, Chung and Paynter, (2002) in New Zealand. Among the Indian internet banking researches are Mukherjee (2003). Several studies indicate that online bankers are the most profitable and wealthiest segment to banks (Ross, 1998; Robinson, 2000; Thorsteinson, 2000). Munaye (2009) studied the application of

mobile banking as a strategic response by equity bank Kenya limited to the challenge in the external environment. Munaye (2009) reviewed the concept of mobile banking as a strategic response where its effects on financial performance were not considered.

None of the previous studies looked at the various methods of payments used by the firms concurrently but focused on a particular method and in particular the use of mobile phones. They also had a focus on the banking sector but not at the small and medium businesses which are more common in Kenya. This study aimed to see the various methods and the preference of the firm in a particular method from the many available.

The study was guided by three theories:

2.1 Diffusion of innovation theory (DOI)

Rogers (1995) defines diffusion as the process by which an innovation is communicated through certain channels over time among the members of a social system. Diffusion is a special type of communication concerned with the spread of messages that are perceived as new ideas. Rogers (1995) defines innovation as "an idea, practice, or object that is perceived as new by an individual". The diffusion of an innovation has traditionally been defined as the process by which that innovation "is communicated through certain channels over time among the members of a social system". (Rogers 1995).

Considered in this way there are four key elements in the diffusion process: the innovation itself, channels of communication, time and the social system. Communication channels for their part are the means by which information is transmitted to or within the social system. Time is the relative speed with which innovation is adopted by members of the social system. The social system consists of those individuals, organizations, or agencies that share a common culture and are potential adopters of an innovation. The diffusion model is a conceptual paradigm with relevance to many disciplines; thus the diffusion approach provides common conceptual ground for mobile banking. Rogers (1995) further suggests that social scientists are interested in social change and the diffusion research offers a particularly useful means of gaining and understanding of change, since innovations are a type of communication message whose effects are relatively easy to isolate. Thus when studying mobile banking one is dealing with change in human behavior.

One of the key concepts in diffusion research is that change in consumer behavior is affected by different forces, which can be driving or inhibiting, and which can lead to the adoption or non-adoption of a particular innovation. The research methodology implied by the classical diffusion model is clear-cut and relatively simple. Diffusion scholars have often emphasized quantitative research approaches; they have focused especially on characteristics related to individual innovativeness that can be arrived at through cross-sectional analysis (Rogers 1995) just as the idea of mobile money transfer emanated from the idea of sharing of airtime where customers could pay lower value bills by transfer on Airtime before Mpesa was developed.

2.2 Technology acceptance theory (TAM)

TAM is an adaptation of the theory of reasoned action (TRA) to the field of information systems. TAM posits that perceived usefulness and perceived ease of use determine an individual's intention to use a system with intention to use serving as a mediator of actual system use. Perceived usefulness is also seen as being directly impacted by perceived ease of use. Researchers have simplified TAM by removing the attitude construct found in TRA from the current specification (Yulia and Chulmo,2010). Attempts to extend TAM have generally taken one of three approaches: by introducing additional or alternative belief factors and by examining antecedents and moderators of perceived usefulness and perceived ease of use (Yulia and Chulmo,2010).

TRA and TAM, both of which have strong behavioral elements, assume that when someone forms an intention to act, that they will be free to act without limitation. In practice constraints such as limited ability, time environmental and organizational limits, and unconscious habits will limit freedom to act. This gives insights why people pose risks to others using m-banking services and why others adopt it.

2.3 Theory of planned behavior (TPB)

The TPB helps to understand how we can change the behavior of people. The TPB is a theory which predicts deliberate behavior which can be deliberative and planned. Ajzenet al (1991).TPB asserts that human action is guided by three kinds of considerations; Behavioral beliefs (beliefs about the likely consequences of the behavior), Normative beliefs (beliefs about the presence of factors that may facilitate or impede performance of the behavior)in their respective aggregates behavioral beliefs produce a favorable or unfavorable attitude towards the behavior, normative beliefs give rise to perceived behavioral control, in combination, attitude towards the behavior ,normative beliefs result in perceived social pressure or subjective norm, and control beliefs give rise to perceived behavioral control lead to the formation of a behavioral intention. As a general rule the more favorable the attitude and subjective norm and the greater the perceived control, the stronger should be the persons intention to perform the behavior in question. This enables one to understand why consumers use m-banking and perhaps why others shy away from it which would be found out through this study via an analysis of impacts and risks of m-banking.

Before the invention of money, trade and commerce were accomplished through the barter system, the exchange of one type of goods for another. But the barter system is inefficient and three major problems are associated with it. First, trade can occur only if each of the trading parties has something the other wants, or a double co-incidence of wants. Second, the purchase and sale transactions cannot be separated, but must be simultaneous. The sale or purchase of goods cannot be deferred. The third major problem relates to perishable goods. If the owner of perishable goods cannot trade those goods immediately, they soon lose their value. There was also the issue of pricing problems as what number of one good equals the number of possible pairs of the other good.

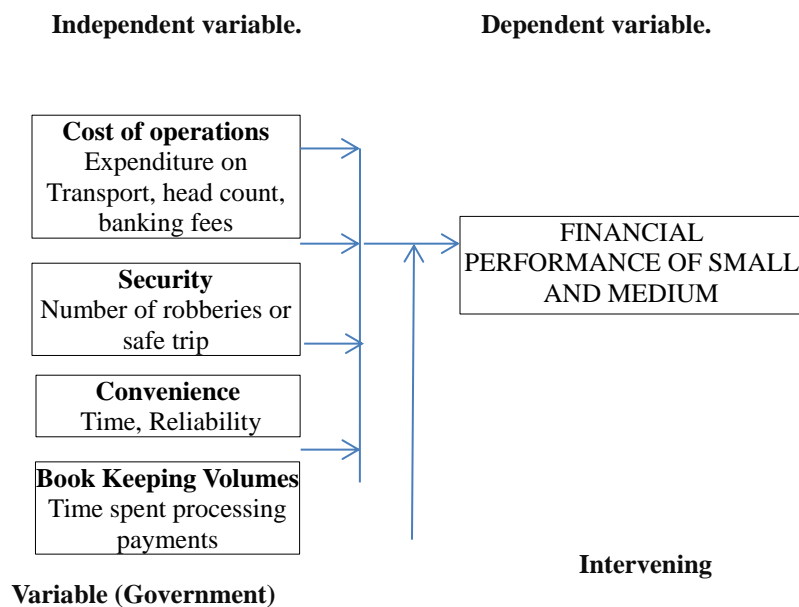
Something that would be considered valuable at any time was needed to solve these problems; that is, a universal medium of

exchange. Over the centuries many items have served as mediums of exchange. The American Indians used beads made from shells, called wampum. Early colonists of North America at one time used tobacco. Cigarettes and liquor were used in Germany immediately after World War II because of the extremely low value of the official currency. Fur pelts, whale teeth, grain, salt and livestock are but a few of the other commodities that, at one time or other, have been used as mediums of exchange.

Metals eventually became the prevailing medium of exchange because of their intrinsic and relatively stable value. It was from this use of metal as a medium of exchange that coins evolved. The coins later were used together with paper money which is lighter than coins in large amounts and rarer when properly minted as coins were found to be relatively easier to forge. (Wright and Quadrini, 2012).

2.4 Conceptual Framework

Figure 1. Conceptual Framework



Review of Variables

2.4.1 Effect of Cost of Operation on Financial Performance

Consumers invest considerable time and money in managing their personal finances (Chakravorti and Mazzota, 2013). in the United States the cost of cash is higher for poor and unbanked people than for other groups. Poor Americans who lack access to formal financial institutions carry larger amounts in cash and pay the most fees in aggregate terms for cash access transactions. Well-banked wealthier Americans, on the other hand, report carrying far lesser amounts in cash, traveling less to access cash, and pay few, if any, fees. The costs of using cash do not accrue at points of sale. Since merchants rarely provide discounts or surcharges for using cash at the point of sale, the costs of cash manifest elsewhere in the lifecycle of cash. This could mean, among other things, costs that accrue as a result of the time

or money spent in making trips to a bank, ATM, or fees to cash checks. (Chakravorti and Mazzota, 2013)

A company has to worry about protecting cash from theft, receiving fake currency, and transporting cash. All of this - security, processing time and transportation, - entails costs. (Mwangi, 2013).

2.4.2 Effect of Security on Financial Performance

Security, simply put refers to freedom from danger. In the proposed study, security will refer to mitigation from the risks that the cash in transit face such as being stolen by the employees themselves and even thieves.

With the downturn in the global economy, cash-in-transit crime is on the rise. In the U.K. alone, there is an estimated 500 billion pounds being transported each year. Money stolen in attacks is a major source of funding for serious organized crime. In 2008, there were 1,000 documented attacks against cash-in-transit couriers in the UK. (Applied DNA sciences, 2014) According to the Institute of Business in the global context at the Fletcher school of Business cash must be held in physical form, counted, guarded, and accounted for. It can be difficult to transport and send. Being possibly the last thing you can expect to recover from a stolen wallet, acceptable everywhere, and anonymous, it is inherently insecure. In any serious quantity, most legitimate businesses prefer some other party, such as a bank, to handle cash on their behalf. (Chakravorti and Mazzota, 2013).

A person conducting a business or undertaking must ensure, so far as is reasonably practicable, the health and safety of other persons is not put at risk from work carried out as part of the conduct of the business or undertaking and provide safe systems of work. Cash-in-transit activities will usually involve more than one person conducting a business or undertaking who each have health and safety duties to the extent of their ability to influence and control various aspects of health and safety related to the cash-in-transit activity. In these situations, the duty holders should exchange information about the hazards and risks and work together in a co-operative and coordinated way to eliminate or minimize the risks so far as is reasonably practicable. Potential hazards may be identified in a number of ways, including: inspecting client work sites, inspecting vehicles and equipment, observing systems of work and work practices, analyzing the routes for cash- in-transit transfers, talking to workers about problems they have noticed, reviewing incident, injury and dangerous incident reports e.g. a report on a hold-up, and determining the levels of training, experience and competence for the tasks. Managing security risks requires assessing all foreseeable risks from carrying out cash-in-transit activities. (Safe Work Australia, 2013)

2.4.3 Effect of Convenience on Financial Performance

Convenience implies to the quality of being suitable to one's comfort, purpose or needs. In the fast food industry, mobile payment has proved to offer services that are of expediency to the users, for example, a customer in the office is able to order for French fries via a mobile phone and make payment via the same means; M-Pesa and within a short time delivery is made to

where the customer is. This service has come in handy especially to those who are largely engaged in their places of work thus finding it difficult to walk to these franchises to these foods themselves. They save on time hence they can do more at their work places by using time saved on constructive activities (Porteous and Finmark, 2007). Cash must be held in physical form, counted, guarded, and accounted for. It can be difficult to transport and send. Being possibly the last thing you can expect to recover from a stolen wallet, acceptable everywhere, and anonymous, it is inherently insecure. In any serious quantity, most legitimate businesses prefer some other party, such as a bank, to handle cash on their behalf. In other words, cash satisfies two of the most significant criteria of digital disruption: there are viable digital alternatives with wide networks of adopters and cash presents the carrier with multiple forms of disutility or costs (Chakravorti and Mazzota, 2013).

2.4.4 Effect of Book keeping Volumes on Financial Performance

Book keeping in offices translates to long man hours. According to UNEP (2011). Going paperless has many advantages: increased efficiency, paper and printing cost savings, time savings, storage cost savings, environmental benefits, efficient file retrieval, and enhanced customer service. There are a variety of possible benefits for companies deciding to make their offices —paperless. An obvious benefit is potential cost reduction. Other benefits that can be achieved include becoming more —green or environmentally friendly and increasing efficiency. When combined together, all of these lead toward an overall benefit of improving customer service. By doing this, companies may continue to keep their current customers happy and make new customers become long-standing loyal ones, as well. There are many concerns in today's world about the state of the environment. With more and more people supporting going green and supporting companies that do so. In the United States The Natural Resources Defense Council has found that —offices throw out about 350 pounds of paper per employee every year, (Ryan, 2008). Dan Shapley (2007), writer for The Daily Green Paper, an online newsletter geared toward the green revolution, paper accounts for a quarter of landfill waste and one third of municipal landfill waste. One third of human-related methane emissions come from municipal landfills. This is significant considering that methane is 23-times more potent a greenhouse gas than is carbon dioxide. By cutting office paper use by just 10%, the United States would prevent the emission of 1.6 million tons of greenhouse gases. This would be similar to removing 280,000 cars from the road. In turn, besides the above benefits, the company will have the reputation of being environmentally friendly. (Bradwel, 2005) In Africa Senegal's experience in paperless trade implementation started in the mid-1980s when government authority (Ministry of Finance) made the decision to computerize official processes, in general, and trade procedures, in particular. Implementation really took shape in the 1990s, with the reform initiated by customs to improve clearance formalities. These efforts later culminated into the establishment of the customs automated system.

3 METHODOLOGY

3.1 Research design

The study adopted a descriptive survey design. According to Mugenda and Mugenda (2003), a survey research is a systematic gathering of information from a sample of respondents for the purpose of understanding and predicting some aspects of the behavior of the population of interest. This allowed for the collection of quantitative data which can be analyzed quantitatively through descriptive and inferential statistics. It also helped in the collection of standardized data from a large population in an economical way, allowing easy comparison.

3.2 Target Population

The Target population of the study comprised the small and medium Businesses operating in Kitale town; A total population of 2594 registered businesses are operating in the town as registered with the County Council. The target population was stratified into homogeneous categories comprising 277 wholesalers, 479 retailers, 150 restaurants and 604 Service businesses.

3.3 Sample size

A sample of 151 SME's was drawn proportionately from the data. Elements from each stratum were selected using random sampling technique to give each element an equal chance to constitute a sample of 151.

3.4 Instruments

The instruments that were used are closed ended questionnaires as they allow for standard feedback from the respondents. The questionnaire was self administered; it was personally delivered and collected later to allow for hassle free response from the subject.

3.5 Data processing and analysis

The data processing involved strictly related operations which included; scanning by checking the entire questionnaire to ensure that they were complete and instructions were followed, establishment of categories and range, and the application of these categories to raw data through coding for purposes of analyzing and finally the tabulation of data in tables for each question in order to draw statistical inferences.

The analysis of data always depend on the research questions and objectives (Saunders, Lewis, & Thornhill, 2009). Descriptive statistics were used to analyze the data that was collected. Data was analyzed using frequency distribution tables and percentages. The study used Statistical Package for Social Sciences Version 21.0 to aid in data analysis. In order to study the determinants of payment methods on effective financial performance of small and medium enterprises in Kitale, the researcher conducted a multiple regression analysis using the following regression model.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Whereby

Y = The dependent Variable (Financial performance of Small and Medium Enterprises)

β_0 = Constant

$\beta_1 \dots \beta_4$ = co-efficient

X_1 = Cost of operation

X_2 = Security

X_3 = Convenience

X_4 = Book keeping volumes

ε = Error term

4 RESEARCH FINDINGS AND DISCUSSION

4.1 Response Rate

Primary data was collected between June and July 2016 using a questionnaire. One hundred and fifty one (151) questionnaires were issued to the selected managers and proprietors from the businesses in the region. One hundred and sixteen questionnaires were returned representing a 76% response rate. The response rate is considered adequate given the recommendations by Saunders, Lewis and Thornhill (2007) who suggest a 30- 40% response, Mugenda and Mugenda (2003) advise on response rates exceeding 50% and Hager, Wilson, Pollack and Rooney (2003) recommend 50%. This implies that the response rate for this study was adequate.

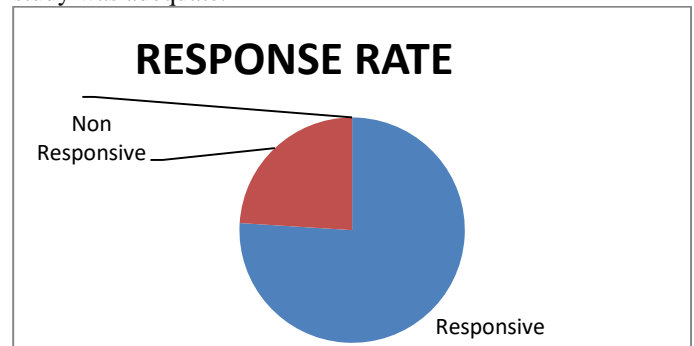


Figure 4.1 Response rate

4.2 Profits of the Firms

Majority of the businesses had profits with most (51%) of them being in the group between 250000-750000. Many of the respondents (35%) fell within the profit range of less than 250,000. The group with the lowest profit level was the one with profits of above one million (3%).

4.3 Time Period the business has been active.

majority of the businesses have been operating for a period of more than 5 years (40%) 750000. None of the businesses had been in operation for a period of less than one year, while many of the businesses had been working between a period of three to five years (32%).

4.4 Employees the business has

The largest group had employee numbers between 8-12 employees (34%) while the lowest group was that of greater than 12 employees (13%). (26%) employed less than 3 people while 27% had employees in the group of 3-8.

4.5 Effect of Cost of Operation on financial Performance

80% of the respondents agreed that reduced cost of operation has positive effect on increasing financial performance while 20% were neutral and none of the respondents disagreed with the statement that reduced cost of operation has positive effect on increasing financial performance. Asked whether reduced cost of operation increases the margins thus contributing positively to financial performance, 31% disagreed, 36% agreed while 37% were neutral. On whether reduced cost of operation eliminates

wastage and improves efficiency hence contributing positively to financial performance, 32% were neutral, 52% agreed while 16% disagreed. On whether reduced cost of operation allows for more innovation thus contributing positively to financial performance, 27% were neutral, 18% agreed while 55% disagreed. The mean score of responses regarding cost of operation was 3.115 on a 5 point scale.

4.6 Effect of Security on financial performance

73% of the respondents agreed that increased Security has positive effect on increasing financial performance while 27% were neutral and none of the respondents disagreed with the statement that increased Security has positive effect on increasing financial performance. Asked whether increased Security increases the margins thus contributing positively to financial performance, 76% disagreed, 18% agreed while 6% were neutral. On increased Security eliminates wastage and improves efficiency hence contributing positively to financial performance, 20% were neutral, 14% agreed while 76% disagreed. On whether increased Security allows for more innovation thus contributing positively to financial performance, 48% were neutral, 45% agreed while 8% disagreed. The mean score of responses regarding security was 2.86 on a 5 point scale.

4.7 Effect of Convenience on Financial Performance

6% of the respondents agreed that increased convenience has positive effect on increasing financial performance while 18% were neutral and 77% of the respondents disagreed with the statement that increased convenience has positive effect on increasing financial performance. Asked whether increased convenience increases the margins thus contributing positively to financial performance, 39% disagreed, 10% agreed while 51% were neutral. On whether increased convenience eliminates wastage and improves efficiency hence contributing positively to financial performance, 31% were neutral, 69% agreed while none disagreed. On whether increased convenience allows for more innovation thus contributing positively to financial performance, 20% were neutral, 70% agreed while 10% disagreed. The mean score of responses regarding ATMs was 3.63 on a 5 point scale.

4.8 Effect of Book Keeping volume on Financial Performance

10% of the respondents agreed that reduced Book keeping volumes have positive effect on increasing financial performance while 17% were neutral and 73% of the respondents disagreed with the statement that reduced Book keeping volumes has positive effect on increasing financial performance. Asked whether reduced Book keeping volumes increases the margins thus contributing positively to financial performance, 53% disagreed, 18% agreed while 29% were neutral. On whether reduced Book keeping volumes eliminates wastage and improves efficiency hence contributing positively to financial performance, 23% were neutral, 33% agreed while 44% disagreed. On whether reduced Book keeping volumes allows for more innovation thus contributing positively to financial performance, 24% were neutral, 54% agreed while 22% disagreed. The mean score of responses regarding ATMs was 2.655 on a 5 point scale.

4.9 Regression Equation.

The established regression equation was;

$$Y = 6.749 + 1.088 X_1 + 0.650 X_2 + 0.670 X_3 + 0.247 X_4 + \epsilon$$

Where

β is a correlation coefficient

Y= Cost of operation

X₂= Security

X₃= Convenience

X₄= Book Keeping Volumes

ϵ = Error Term

The Beta coefficients indicate the extent to which financial performance changes due to a unit change in the independent variable. The positive Beta coefficients indicate that a unit change in the independent variable leads to a positive change in financial performance. For example, From the regression equation above, taking all factors into account (Cost of operation, Security, Convenience and Book Keeping Volumes) at zero constant, financial performance among Small and Medium Enterprises in Kitale town will be 6.749. The findings presented also showed that taking all other independent variables at constant, a unit increase in cost of operation will lead to a 1.088 increase in the financial performance of the businesses. The study also established that a unit increase in security while all other independent variables are constant, will lead to a 0.650 increase in financial performance. In addition, the study found that an increase in convenience while all other independent variables are constant, will lead to 0.670 increase in financial performance. Lastly, the study found that an increase in book keeping volume while all other independent variables are constant, will lead to a 0.247 increase in procurement performance.

5 SUMMARY

5.1 To investigate the effect of cost of operation on financial performance of small and medium enterprises in Kitale town.

The first objective of the study was to investigate the effect of cost of operation on financial performance of small and medium enterprises in Kitale town. The respondents agreed that reduced cost of operation has positive effect on increasing financial performance though they were neutral on whether reduced cost of operation increases the margins thus contributing positively to financial performance. The respondents felt that reduced cost of operation eliminates wastage and improves efficiency hence contributed positively to financial performance, while they felt that reduced cost of operation doesn't allow for more innovation in the business.

From the regression model, The findings presented showed a unit increase in cost of operation will lead to a 1.088 increase in the financial performance of the businesses. The Pearson's coefficient of correlation to study the correlation between the variables in the study, it was determined that there was a positive correlation between cost of operation and financial performance with a value of 0.749. Therefore cost of operation has a significant positive effect on financial performance.

5.2 To establish the effect of security on financial performance of small and medium enterprises in Kitale town.

The second objective of the study was to establish the effect of security on financial performance of small and medium

enterprises in Kitale town. The respondents agreed that increased Security has positive effect on increasing financial performance. They also felt that Security doesn't increase the profit margins neither does Security eliminate wastage or improve efficiency. The business also felt that security does not lead to innovation. From the regression model, The findings presented showed a unit increase in security will lead to a 0.650 increase in the financial performance of the businesses. The Pearson's coefficient of correlation to study the correlation between the variables in the study, it was determined that there was a positive correlation between security and financial performance with a value of 0.789. Therefore security has a significant positive effect on financial performance.

5.3 To establish the effect of convenience in operations on financial performance of small and medium enterprises in Kitale town.

The third objective of the study was to establish the effect of convenience in operations on financial performance of small and medium enterprises in Kitale town. The respondents felt that increased convenience has positive effect on increasing financial performance but were neutral on whether convenience increases the profit margins of the business. The respondents also felt that increased convenience eliminates wastage and improves efficiency hence contributing positively to financial performance. The predominant thought was that convenience leads to more innovation in the business. From the regression model, the findings presented showed a unit increase in cost of operation will lead to a 0.670 increase in the financial performance of the businesses. The Pearson's coefficient of correlation to study the correlation between the variables in the study, it was determined that there was a positive correlation between cost of operation and financial performance with a value of 0.709. Therefore cost of operation has a significant positive effect on financial performance.

5.4 To investigate the effect of Book Keeping Volumes on financial performance of small and medium enterprises in Kitale town.

The fourth objective of the study was to investigate the effect of Book Keeping Volumes on financial performance of small and medium enterprises in Kitale town. The respondents felt that reduced Book keeping volumes has no positive effect on increasing financial performance. Similarly there was disagreement on the impact of book keeping volumes on the profit margins as the respondents felt it had no impact whatsoever. The respondents disagreed that reduced Book keeping volumes eliminates wastage and improves efficiency hence contributing positively to financial performance. On whether reduced Book keeping volumes allows for more innovation thus contributing positively to financial performance, there was agreement that it actually allowed for more innovation in the business.

From the regression model, the findings presented showed a unit increase in Book keeping volumes will lead to a 0.247 increase in the financial performance of the businesses. The Pearson's coefficient of correlation to study the correlation between the

variables in the study, it was determined that there was a positive correlation between book keeping volumes and financial performance with a value of 0.953. Therefore book keeping volumes has a significant positive effect on financial performance.

5.5 CONCLUSIONS

Based on the findings of the study, it can be concluded that determinants of payment methods have an influence on the financial performance Small and Medium Enterprises in Kitale town. The adoption of payment innovations by Small and Medium Enterprises has a high potential of improving financial performance and hence better returns to the owners. The versatility of innovations has made their adoption rate to be high such as the high rates of adoption of M-pesa. It could have been challenging if the adoption was only with either the business or the customers. Small and Medium Enterprises in Kitale have continued to perform well as shown by the high number of employees and their large life periods. This can be explained by the use of innovations which have enabled the businesses to start making income and making of payments through the modern efficient, secure and cost effective channels.

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