

**IMPACT OF MOBILE SERVICES ON THE PERFORMANCE OF SMALL AND  
MEDIUM ENTERPRISES IN UGANDA: A CASE STUDY OF  
KANSANGA BUSINESS AREA.**

**BY**

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### DECLARATION

I, **Musinguzi Collins** declare that this work is entirely mine and solely a result of my own effort. It has never been submitted in any institution for the academia award.

Signed by .....  .....

Date ..... 10/09/2019 .....

### APPROVAL

This is to certify that this research proposal has been under my supervisor and is now ready for submission to College of Economics and Management department of Accounting and Finance.

Signature ..... 

Mr. Timbirimu Micheal

**(SUPERVISOR)**

Date ..... 

## DEDICATION

I dedicate this piece of work to my family and relatives, my brothers and sisters and my mentor Mr. Timbirimu Micheal who gave me all the guidance towards this work and also my friends who have been there for me at the university.

## ACKNOWLEDGEMENT

I thank God the Almighty whose guidance, Mercy and Grace made my report writing a success and kept me alive all through my education. I am indebted to My supervisor who supported, encouraged, guided and equipped me with all the skills used in writing this report. Furthermore I wish to convey my thanks to the University for the Facilities provided through the library and computer laboratories, I also extend my sincere appreciations to all my parents for their contribution towards this report.

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## ACRONYMS

SME	Small and Medium Enterprises
MTN	Mobile Telephone Network
MNO	Mobile Network Operators
GDP	Gross Domestic Product
USD	United States Dollar
TAM	Technology Acceptance Model
TRA	Theory of Reasoned Action
BI	Behavior Intention
MMTS	Mobile Money Transfer Services
PDA	Personal Digital Assistant

## ABSTRACT

The general objective of the study was to examine the influence of mobile money services on the growth of small and medium enterprises in Kansanga business area and the specific objectives of the study were; to examine the effect of mobile payment on the growth of SMEs in Kansanga business area, to establish the effect of mobile finance on the growth of SMEs in Kansanga business area and to determine the effect of mobile banking on the growth of SMEs in Kansanga business area.

The findings of the study revealed that mobile payment greatly improves the performance of small and medium enterprises as respondents agreed to all the statements used to measure this objective. The most accepted statement was that their businesses have expanded because of using mobile payments which was accepted with a percentage response of 85. The findings of the study revealed that mobile finance improves the performance of small and medium enterprises as respondents agreed to most of the statements used to measure this objective except that it was revealed that through mobile finance, they are not able to obtain credit from financial institutions. The findings of the study also showed that mobile banking generally improves the performance of small and medium enterprises in Kansanga as respondents agreed to statements that were used to measure this objective except that mobile banking does not reduce the cost of transactions. In other words the costs associated with mobile banking are high.

The study recommended that; the government should encourage SME sector at every level to greatly adopt the use of mobile payment as it enhances the performance of SMES, the Banking institutions should cooperate with Telecom companies in order to enable SME owners to attain finance from banks through mobile finance services, the government should reduce on the taxes charged on transactions via mobile banking as respondents revealed that the costs associated with mobile banking are high.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the Study

##### 1.1.1 Historical Background

Globally, technology is consistently cited as one of the greatest challenges faced by small and medium enterprises (SMEs) around the world. It is widely recognized that technology is invaluable for improving efficiency, accuracy, increasing outreach and reducing costs. However, many SMEs lack sufficient funds to invest in suitable backend technologies, or operate in regions where access to critical infrastructure such as the Internet remains scarce. Still others sink funds into poor technology investments, or simply choose not to invest, limiting their ability to grow and compete (Rosenberg, 2009).

Mobile money is novel: it was barely heard of a decade ago. The first service for the unbanked became active in 2001, but it is probably the phenomenal growth since 2007 of Kenya's M-Pesa system that has brought mobile money to international prominence. (Aron, 2016). Mobile money transfer services emerged in Kenya with Safaricom's M-pesa service and Mkesho in 2010. The usage of the service is common in the country among subscribers and also among the unbanked populations in the rural areas. In Uganda MTN was the first to embrace the use of mobile money and today most of the people use mobile money more than even banking institutions (Jona 2018).

On the other hand in Uganda the small scale business sector, like in others parts of the world, is seen as a vital contributor in the evolution to a market economy, through job creation and income generation among other factors (Hisrich & Ozturk, 1999) With 80 % of SMEs located in urban areas such as Kampala (Hatega, 2007) they contribute approximately 75 percent of the gross domestic product (GDP) and employ approximately 2.5 million people (Osunsan, 2012). This signifies their undisputed role in the economic development of Uganda. One of the recently emerging technologies in the microfinance industry is the use of mobile phone technology for both banking and remittance. According to Gartner (2012) and ITU (2014), the global volume of mobile transactions is expected to grow from USD 37.4 billion in 2014 to over USD 1.13 trillion in 2022, while the number of users of mobile money services worldwide will surpass 141 million in 2022, and the number of mobile phones will be 7 billion, greater than the total population in the globe. This represents a mere 2.1% of all

mobile users worldwide. This implies that there is still much room for growth especially in regions where there is lack of alternative payment methods.

In Africa, By 2012, there were 25 mobile money services operated by different Mobile Network Operators (MNOs) across Africa (GSMA, 2012). Among these, 15 are in East Africa (GSMA, 2012). Among the five East African countries, Kenya has the leading number of users of mobile money services with 17,800,000 registered users, which represents 71.3% of the total number of mobile phone users in the country. Tanzania is the second with 9,200,000 users of mobile money which represents 43.4% of the total number of mobile phone subscribers in the country (GSMA, 2012). Uganda has the third largest number of mobile money users in the East African region with 2,100,000 users representing 8.1% of the total number of mobile phone subscribers. Rwanda and Burundi have 309,127 and 29,000 users of mobile money services representing 8.3% and 2.7% of the total number of mobile phone users in those countries respectively (GSMA, 2012).

In Uganda, Over the last decade, mobile phones increased around the developing world. New services are emerging as mobile network operators (MNOs) diversify services to compliment voice and SMS in a progressively competitive environment, where the goal is improving customer retention and reducing churn (Ali Ndiwalana, Olga Morawczynski, & Popov, 2007) This is the reason why Small and Medium enterprises (SMEs) in the developing world are increasingly deploying the use of mobile payments to enhance the quality of their services and increase growth.(Mbogo, 2010)

### **1.1.2 Theoretical Background**

The study was guided by the Theory of Technology Acceptance Model (TAM) by Fred David in 1989. According to the model, perceived usefulness is a key reason to technology adoption .The theory generally states that success goes to those who quickly adopt the use of technology in its full capacities. Over the years TAM has been tested and applied in the prediction of future consumer behavior concerning perceived usefulness and perceived ease of use being the fundamental determinants of system adoption and use.

### **1.1.3 Conceptual Background**

Conceptually, financial services provided through digital mobility technologies have multiple configurations, goals, and characteristics. Depending on the combination of agents, technologies and objectives, they may have banking features, which are known as mobile

banking. They may also have transaction payment features, which are recognized as mobile payments. Finally, they may also replicate the concept of money with digital features, which is then called mobile money. (Jenkins et al, Laukkanen et al, & Shen, 2008).

Mobile payments: it may refer to bill payments, acquisition payments, or a transfer of financial resources or money between economic agents, and still come into the banking domain. In certain contexts, other concepts would be more appropriate, like mobile money, mobile transfer and/or mobile banking. (Jenkins et al, Laukkanen et al, & Shen, 2008)

Mobile money services in the study was conceived as the independent variable, while performance of small and medium enterprises was the dependent variable.

#### **1.1.4 Contextual Background**

Contextually since mobile money was established in Uganda, the number of subscribers has been steadily increasing. By the end of 2012, Uganda had over 12 million mobile money users all over the country. Currently, figures have grown to about 19.5 million, due to the fact that mobile money services have deepened financial inclusion in Uganda where bank accounts are six million. (Kiyangi, 2016)

Namatovu (2010) Observed that majority of the enterprises in Uganda are found in restaurants and food processing, garages for motorcars and motorcycles, retail and whole sale trade, metal fabrication, furniture assembling, schools and transport services. On top of the surging subscriber numbers, mobile money transactions have grown from Shs962.7 billion to Shs 24 trillion by the end of 2018. The bulk of these transactions is through the market leader, MTN Uganda. (Herman Kasekende, 2018)

Many studies have been undertaken on mobile money services focusing on consumer adoption, technology design improvements and business-driven models. This study was carried in Kansanga business area located in Kampala in the central part of Uganda.

#### **1.2 Statement of the Problem**

The majority of the SMEs in Uganda operate in the informal sector with most of them being sole proprietorships or family businesses usually employing less than five persons .They are involved in small semi-organized and sometimes unregulated activities that are mainly concentrated in urban as well as in some parts of the rural areas. The business functions are usually conducted by the owner/manager in market stalls, open-yards, and residential

houses and on undeveloped open grounds (Pousttchi, 2003). Many of these SME operators do not have bank accounts while those who do, find the bank accounts cumbersome to operate as they have to leave their businesses unattended in order to conduct transactions in a bank. As a result the mobile money services have become popular both for the unbanked and the banked. The adoption of the mobile money services

have been accelerated by the relative affordability of mobile phones and the mobile banking services they offer. Small and medium enterprises (SMEs) in the developing world are increasingly deploying the use of mobile payments to enhance the quality of their services and increase growth (Mbogo, 2010). Uganda in particular has experienced a fast and explosive growth of mobile money services, which comes with associated benefits, like potential to increase the efficiency of existing payment systems (Sova, 2013).

Despite the adoption of mobile money, most of the small and medium enterprises are still performing less than the expected standards as most of them tend to close without celebrating their fourth birthday.

Therefore this study sought to determine the effect of mobile services on the performance of small and medium enterprises using a case study of kansanga business area.

### **1.3 Research Objectives**

#### **1.3.1 General Objective of the Study**

The general objective of the study was to examine the influence of mobile money services on the growth of small and medium enterprises in Kansanga business area.

#### **1.3.2 Specific Objectives of the Study**

- i. To examine the effect of mobile payment on the growth of SMEs in Kansanga business area.
- ii. To establish the effect of mobile finance on the growth of SMEs in Kansanga business area.
- iii. To determine the effect of mobile banking on the growth of SMEs in Kansanga business area.

### **1.5 Research Hypothesis**

- i. What is the effect of mobile payment on the growth of SMEs in Kansanga business area.
- ii. What is the effect of mobile finance on the growth of SMEs in Kansanga business area.
- iii. What is the effect of mobile banking on the growth of SMEs in Kansanga business area.

## **1.6 Scope of Study**

### **1.6.1 Subject Scope**

The study was limited to mobile services and performance of small and medium enterprises. The independent variable was mobile services and the dependent variable was performance of small and medium enterprises in Kansanga.

### **1.6.2 Geographical Scope**

The study was carried out in Kansanga business area located in Kampala in the capital city of Uganda as it was more convenient for the researcher in terms of data collection.

### **1.6.3 Time scope**

The study was carried out in a period of three month that is June to August 2019 as it was the most convenient time for the researcher for the entire report compilation process

## **1.7 Significance of the Study**

The study will help the researcher to improve his knowledge about the Mobile money services and performance of SMEs in Uganda

The study will help the researcher to attain a bachelors' Degree of Business Administration since its part of the requirements for attaining that award.

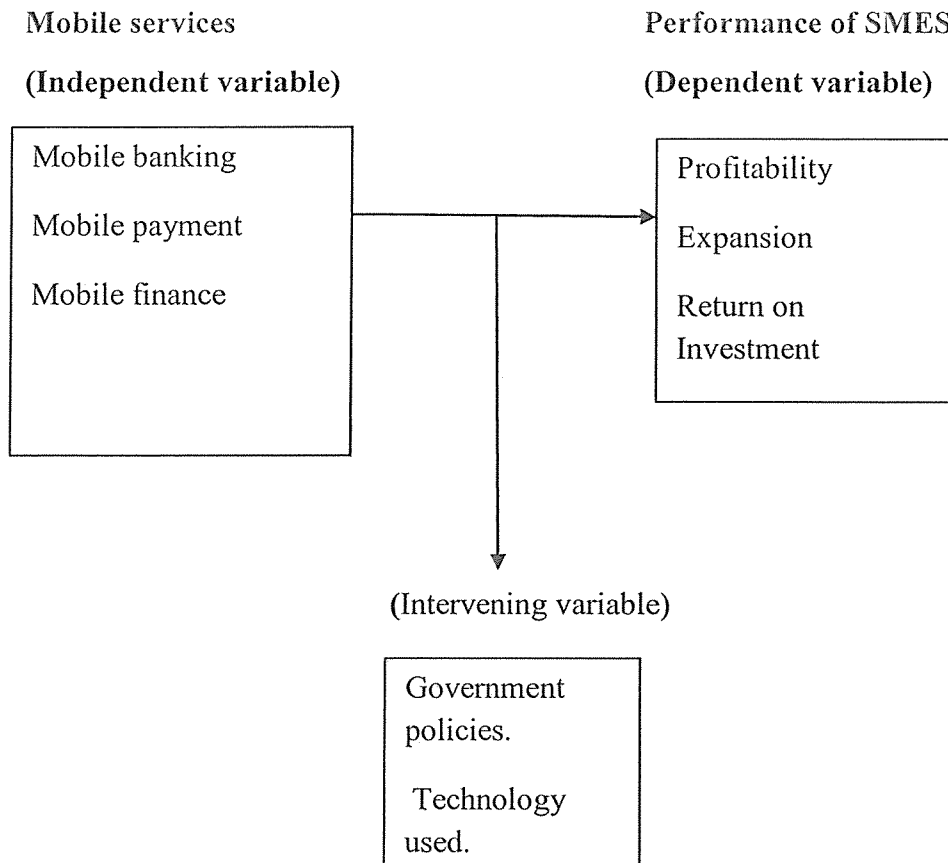
The study will add to the existing literature on mobile services and performance of small and medium enterprises in Uganda

The findings of the study will enable policy makers to come up with the best policies that can improve business performance of SMEs in Uganda.

The findings of the study will enable the tax authorities to decide on the tax to levy on mobile money services and SMEs basing from their performance.

## 1.8 Conceptual Framework

Fig1: The Relationship between Mobile services and performance of SMES



**Source: Adapted and modified from Douglas (2002).**

The figure above clearly explains how the independent variable, intermediate variable and the dependent variable were measured in this study. The dependent variable was measured in terms of profitability, return on investment and expansion, the independent variable was measured in terms of mobile banking, mobile finance and mobile payment and the intermediate variable was measured in terms of government policies and technology used.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

This chapter reviewed the existing literature on the study variables that is the theoretical review, conceptual review and the empirical review about each objective.

#### 2.1 Theoretical Review

##### 2.1.1 Technology Acceptance Model (TAM)

Technology acceptance Model was developed by Fred David in 1989. The model is rooted in the Theory of Reasoned Action (TRA). TAM model is considered to be the most influential and commonly employed theory describing an individual acceptance information system (Lee et al., 2003). Originally, the model was made with four variables; perceived usefulness, perceived ease to use, attitude toward using and actual system uses. Later two variables were added in the model which were external variables and behavioral intention (Eramus et al., 2015). Also the theory suggests that perceived usefulness and perceived ease of use are affected by external variables (Alharbi and Drew, 2014).

According to the model, perceived usefulness is a key reason to technology adoption, external variables attitude towards using actual use perceived usefulness perceived ease of use behavioral intention the expected benefits to SMEs include lower administration cost, increased internal efficiency, enhanced relationship with business partners, improved competitiveness, improved quality of information, access to bank account, fund transfer as well as bill payment (Riyadh et al., 2009). The model hypothesized that the attitude of ease of use is the major determinant of whether the user will use or reject the system. The user believes that the system which is easier to use is more useful to his or her job performance. Perceived ease of use determines both perceived usefulness and attitude towards using the system. According to TAM both perceived usefulness and perceived ease of use influences the users' attitude toward a mobile money services. Hence usefulness and ease to use then develop a positive attitude toward services (Fethena et al., 2015). In this study usefulness of mobile money services had influence on the growth of SMEs.

Venkatesh and Davis (2000) proposed addition variable to the original TAM model, they considered other factors referred to as external variables that might influence the beliefs of person toward a system, such variables are system characteristics, user training, user

participation in design and the nature of the implementation process (Chullur, 2009). TAM was developed to explain and predict particular IT usage. The model has been used by many researchers in studying adoption and diffusion of various information system technologies (Riyadh et al., 2009). The TAM indicate that perceived usefulness and perceived ease of use predict attitude toward using mobile money services, perceived usefulness also influence the users behavior intention (BI) using mobile money services, intention to use also determine the actual of using Mobile money services.

## **2.2 Conceptual Review**

### **2.2.1 Mobile Money Services**

“Mobile money” is money that can be accessed and used via mobile phone (Jenkins et al., Laukkanen et al., & Shen, 2008) although mobile money literature is still limited, initial empirical evidence indicates that using a mobile money account brings positive returns to individuals and enterprises. A market-level analysis conducted by (Mbiti, 2011) found the introduction of MPESA in Kenya led to significant decreases in the prices of money transfer competitors.

Additionally, they found an increase in the frequency of receiving remittances, which the authors conclude over-time has contributed toward financial inclusion in the country (Mbiti, 2011) and (Jack, 2011)

A mobile payment or m-payment is any payment where a mobile device is used to initiate, authorize and confirm an exchange of financial value in return for goods and services (Karnouskos, 2004) Mobile devices in this case include mobile phones, tablets or any other devices that are able to connect to mobile telecommunication networks and enable payment to be made. (Herzberg, 2003) Depending on the channels the MNO makes available for providing the service, a consumer may be limited to the use of mobile phone only or all the other mobile devices aforementioned. M-Payments use what is called e-money or m-money to make payment for goods and services (Herzberg, 2003)

## 2.3 Relate Literature

### 2.3.1 Mobile Payments and the Growth of SMEs

The extent to which the mobile payment usage would impact on performance depends largely on whether there is an enabling environment (Porteous, 2006). M-Pesa has widespread access and requires an enabling environment to enhance the success of its consumers. The micro businesses are spread throughout the country with huge clusters in the market areas and near shopping centers. This enables them to easily access the M-Pesa service providers for registration and to make cash deposits into their accounts. The mobile payment providers' agents are well distributed and easily accessible to the micro business owners for support of their services in Uganda.

Literature shows that mobile payment system among SME coverage in Uganda is below accepted levels unlike other sectors (CCK, 2013). Data from CCK indicate very discouraging statistics of Lipa Na Mpesa, Bebapay, Mobicash, among others (CCK, 2013). The uptake is low; it is far below other sectors such as large corporate and individual level. It is also indicative that Technology coverage is also low in SME, while remarkable strides have been made in adopting technology in sectors like education and banking; little has been realized in the SME in Uganda (Makau 2010).

In July 2013 Safaricom Launched a product dubbed Lipa Na Mpesa to specifically address C2B payments and meant to be a big boost for micro-entrepreneurs. However according to Kopo Kopo Inc. an American company contracted by Safaricom to sign up and manage entrepreneurs on *Lipa na M-pesa* payment system, they report that out of 12,500 entrepreneurs they have signed up, only about 3,000 are actively using the service (Wills, 2014). Zollmann (2014) concludes that until payments solutions solve real problems for the users themselves, we are unlikely to see wide scale usage of these payments mechanisms, and the benefits of mobile payments may not actually accrue to all players in the economy.

Use of mobile money payments provides economies of scale in procuring of materials and reduces the supply chain (Donner & Escobari, 2010). Wanyonyi & Bwisa (2013) determined the influence of mobile money transfer services on the performance of SMEs. They found that SMEs use mobile money transfer for: B2B (business to business) transfer when making purchases from suppliers and C2B (customer to the business) transfers when customers buy from the business and for debt collection for credit sales contributes to improved performance

of the micro enterprises. However, Wamuyu, et al. (2011) reported a limited use of mobile money transfer for B2B and B2C transactions as opposed to C2C and C2B e-commerce transactions though mobile money transfer, and that mobile internet services have a positive significant effect on the performance of SME.

Mbogo (2010) has established the success factors attributable to the use of mobile payments by Micro-business operators and revealed that the convenience of the money transfer technology plus its accessibility, cost, support and security factors relate to the behavioural intention to use and actual usage of the mobile payment services by the micro businesses to enhance their success and growth.

According to a study published in the Financial Sector Deepening Kenya (2009), when users of M-Pesa were asked to compare the service with their previous national money transfer service over 95% of users found that M-Pesa faster, more convenient, safer and cheaper. At the time of survey Safaricom offered service to 4,420,279 users through 4,781 MPesa agents. The ease of access compared very well with 887 bank branches and 1,424 ATMs countrywide. Given M-Pesa versus these other remittance services the strong growth of user numbers for M-Pesa shows that the introduction of M-Pesa has increased Kenya's payment infrastructure. With all these developments, Lipa na M-Pesa which is a product of M-Pesa is still at its infancy as can be deduced from the feedback of the respondents.

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.

### **2.3.2 Mobile finance and Growth of SMEs**

Mobile finance services assist microenterprises to pay for their insurance premiums, accumulate assets and obtain credit. Govil et al. (2014) have analyzed the role of mobile

finance and found that it enhances economic growth of businesses. It speeds up the flow of goods and services create conducive atmosphere for investment and above all security. Onyango et al. (2014) examined the impact of adoption and use of mobile phone technology on the performance of micro and small enterprises, and indicated a positive relationship between mobile usage and the performance of micro and small enterprises. Similarly, Kakwa (2012) report that there is an influence of adoption and use of mobile phone technology among SME's through faster response to customers' needs, increased internal efficiency, access to new markets and lower operational costs.

Mobile finance assists SMEs to save and get credit, which enable them to communicate with their clients. The improvement in communication enhances their business transactions. They can reduce unnecessary cost of meeting their clients and cost of debt collection through communication. The link between them and their clients improves their sales over time. SMEs can access credit through mobile finance that helps them achieve short-term needs of the business. Donner (2007) has observed in Rwanda that SME benefit because of using mobile money in business operations. Kakwa (2012) made similar observation in Ghana that mobile finance improves customer services not excluding marketing. Govil et al. (2014) findings showed that businesses using mobile finance such as savings, insurance and credit experiences improved economic progress in their activities.

Micro enterprise operators in Uganda have adopted the use of the mobile payments as a way of transacting their business because of the relative affordability of mobile phones and the mobile banking services they offer (Mbogo, 2010). "Mobile money" is money that can be accessed and used via mobile phone (Jenkins, 2008). Mobile money can be used to settle a variety of transactions conveniently and it transforms the mobile phone into a mobile wallet. To access Mobile Money Transfer Services (MMTS), a customer must first register at an authorized mobile money transfer retail outlet of a mobile network operator offering MMTS. The customer is then assigned an individual electronic money account that is linked to his phone number and accessible through a SIM card-resident application on the mobile phone.

The study by Saleem and Rashid (2011) in Pakistan examined the relationship between customer satisfaction and mobile banking in Pakistan. Questionnaires were given to 230 bank employees and 230 bank customers. Findings revealed that customers concerns about security, authenticity and reliability of technology were significant. Results imply that firms

should focus upon IT application, innovative services, security, and customer trust and risk because they are key indicators of technology adaptation.

### **2.3.3 Mobile Banking and Growth of SMEs**

According to Nasikye (2009), Mobile banking (m-banking) involves the use of a mobile phone or another mobile device to undertake financial transaction linked to a client account. According to (Owen, 2008) m-banking refers to provision and availing of banking and financial service with the help of mobile telecommunication device. Services include performing balance checks, account transactions, payments, credit applications and other banking transactions through a mobile device such as a mobile phone which is most used in developing countries or Personal Digital Assistant (PDA).

Nyaga (2013) examined the impact of mobile money services on the performance of SMEs, and found out that use of mobile money has made a significant contribution to the SME sector. First, majority of traders relies on it as opposed to the formal banking sector for their day-to-day transactions. Secondly, SME operators have a clear understanding of the basic functions of mobile money services. Banking services assist both customers and businesses to settle their transactions. As opposed to traditional banking services, mobile banking is a new innovation, where banking services done through a network referred to as branchless banking.

Microenterprises obtain both transactional and informational services through this new technology. Information relating to account balance and notifications on transactions is also accessible easily. In addition, processing of loan proceeds, withdrawals, and depositing of funds are also doable (Ishengoma, 2011). Traditional banking exposes SMEs to risk associated with cash transactions but use of mobile banking reduces such risk, save them time and reduce cost of transport. Since the services are accessible within the premise, SMEs can dedicate their time to manage the business well thus reducing operational cost (Otiso et al., 2013).

Mobile banking services supplement traditional banking services and the frequency of use is not limited by time and locality. The services involve small, frequent transactions, which are convenient to use mobile banking services.

Otiso et al. (2013) established that the highest percentage of SME uses mobile banking as opposed to traditional banking. Further, SMEs obtain both information and transactional services through their mobile phones. Mobile banking assists SMEs to access banking information about their bank account inquiries and mini statement. Mobile banking also saves them time on queuing and visiting the bank premise thus concentrating on their businesses. Micro business operators can make withdrawals within their business premise and consequently use the same to pay suppliers and utility bills. Wamuyu, et al. (2011) observed that it assist in reducing transport cost and risk associated with transacting in cash.

#### **2.3.4 Relationship between Mobile money services and performance of SME**

Higgins *et al.* (2012) investigated the mobile money usage patterns of Ugandan SMEs. The authors surveyed 865 SMEs which were urban and semi-urban based businesses. They found that whether Uganda SME owners used mobile money to receive payment, pay bills, salaries, or suppliers, they are higher in volumes of both mobile money adaptation transactions. Data showed that of the 865 SME owners who responded, 861(99.5%) used mobile money services in their personal or business dealings, and 67% used it for business.

Mbogo (2010) investigated success factors attributable to use of mobile payments by micro-business operators. The study based on a survey conducted through administration of questionnaires. The data collected from a sample of 409 micro-business entrepreneurs in Nairobi, Kenya. The study applied TAM, which extended to include other factors to help predict success and growth in micro-businesses. Key findings showed that convenience, accessibility, cost, support and security factors are related to behavioral intention to use and actual usage of the mobile payment services by the micro businesses to enhance their success and growth. Moreover, it found that mobile money promotes entrepreneurship by providing a platform for development of new services and by enhancing performance of small enterprises.

According to World Bank (2012), the inability of the SMEs to access funds is still a major issue that limits the formation of new businesses and prevents others from expanding and growing. Lennart and Bjorn (2010) note that cash-flow management are key bottlenecks for micro and small enterprises operations. This assertion tallies with what Booster et al (2008) who established that debt collection, lack of working capital and low sales are among the top

five challenges facing micro and small businesses. These challenges make SMEs lack financial capacity to enlarge and develop.

According to Atieno (2009), most formal financial institutions consider SMEs as uncreditworthy, thus denying them credit. This lack of access to financial resources has been seen as one of the reasons for the slow growth of SMEs. This is coupled with negative perception towards them, which adversely affect their ability to access financial services provided by financial institutions. This is because they are considered not viable customers by the formal financial sectors as their transaction sizes are small. Their accessibility to financial institutions is difficult due to low capital base, poor returns, lack of financial records and collateral property to secure loans from banks and this in turn affects their development (Amyx, 2005).

The objective of mobile financial transactions is to improve the efficiency of microfinance by using mobile technology to make transactions faster, cheaper and more secure (Guagraw, 2007).

It involves account transactions, balance checks and payments. Accordingly, Mbiti and Weil (2011) note that mobile phones technology has made it easier for SMEs to conduct their financial transactions. This is because mobile phone financial transactions saves time and provides a safer means of handling money transfer. Additionally, mobile technology can be used to reach more customers and facilitate exchange of information and decision making.

Huang (2008) conducted a study to determine the impact of mobile phones on SMEs performance in Auckland, New Zealand. He used a questionnaire to collect primary data. The results of his study indicated that most SMEs in Auckland were using mobile technology to conduct their business activities. Additionally, the results of the study indicated that the use of mobile devices had enabled SMEs to increase their annual turnover due to additional business networking opportunities. Furthermore, Bangens and Soderberg (2008) assessed the role of mobile banking and its potential to provide basic banking services to the vast majority of people in Sub-Saharan Africa. The data for the study collected from both the primary and secondary sources. According to their findings, mobile banking has facilitated financial transactions and remittance of funds. Additionally, the results of their study indicated that mobile banking has enhanced the operations and competitiveness of SMEs

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter explains the approaches that were adopted in the study. It describes the research design, study population, area of study, sample size and sampling technique, data types and sources and, the data collection instruments. It includes measurement of reliability and validity of the various instruments, and the data analysis procedures that were employed in the study.

#### 3.2 Research Design

A cross sectional survey design was employed in this study. Both qualitative and quantitative approaches to data collection and analysis were employed in order to get an in-depth understanding of the phenomenon under investigation and to confirm completeness for instruments (Amin, 2005).

Research Approach	Relevance of the approach
Quantitative approach	Numeric data
Qualitative approach	Descriptive data like sex

#### 3.3 Study Population

The study population was 30 respondents comprising of the owners of mobile money businesses and SME owners in Kansanga business area.

#### 3.4 Sample Size and Sampling Technique.

In the study, simple random sampling was used to obtain the sample size of the study and also Stratified random sampling was used to group the respondents and select the respondents from the different stratum. The sample size of the study was established using the Slovic's (1967) formula given a finite population and the degree of precision (reliability) desired by the study.

The Slovene's formula states;

$$n = \frac{N}{1 + Ne^2} = \frac{30}{1 + 30(0.05)^2} = 28 \text{ Respondents.}$$

$$n = 30$$

With  $n$ =number of sample

$N$ =total population

$e$ =level of significance 0.05

Using the formula above, a sample of 28 respondents was obtained

**Table1: population and the sample selected.**

Category	Population	Sample	Sampling technique
Mobile money operators	10	10	Purposive sampling
SME owners	20	18	Simple random sampling
Total	30	28	

### 3.5 Data Source

The study employed secondary data from the journals and primary data that was collected directly from the respondents using a self administered questionnaire.

### 3.6 Data Collection Instrument

#### Primary Data

Primary data was collected by using a survey questionnaire.

A survey questionnaire was used in the study because it is more appropriate for collecting data for a social survey research (Kaplan, 1995) and where the target population is literate and capable of filling the questionnaire (Moser, 1979). The questionnaire was designed with reference to variables of the study consisting of both structured and open ended questions. The structured questionnaire type enabled simple data analysis through tabulation with regard to frequencies and percentages.

## Secondary Data

This was collected from existing reports and journals of the organization related to mobile services and performance of SMEs. Furthermore, data was collected from past researches carried out by different researchers about the same topic.

### 3.7 Measurement of Variables

**Mobile services;** Items were accomplished by a 5 point Likert scale to measure internal controls. The scale ranged from “strongly disagree (1) to strongly agree (5)” and a total of all items was computed from each respondent reflecting mobile services. (Baker, Castro, Labrena & Meyer, 2005).

**Performance of SMEs;** Items were accomplished by a five- response format which was used to measure the perceived performance by the finance sector. (Normal Service Delivery Report, 2005). The scales ranged from “strongly agree (5) to “strongly disagree (1)” basing on literature that was gathered.

### 3.8 Reliability and Validity of the Instruments

#### Reliability

Reliability in qualitative research has reached little attention in the development of methods; in fact to raise issues about the reliability of another’s research has been considered taboo as if it is an accusation of incompetence (Kirk and Miller, 1986). Typically, qualitative interviews are assumed reliable when the same individual collects and analyses the data, as it is the case with this research. In this study, reliability of the instruments was the degree of resistance, reliable instrument that was given the same score when many or several times to measure the same variable provided had changed for a given entity.

#### Validity

Validity in qualitative interviews is only achieved through the relaxed conversational approach when gathering information. In contrast to strict survey interviews in which interaction is sometimes restricted, qualitative interviewing allows opportunity for both parties to clarify what is being said. To establish validity, the designed instruments were availed to the supervisor for review and he gave an approval for administration in a pilot survey. The study employed content validity whereby the researcher specified the indicators which were relevant to the concept being measured. A representative sample of indicators

was selected from the domain of indicators of the concepts of mobile services and performance of SMEs using formula below;

Content Validity Index (CVI) =  $\frac{\text{the number of relevant questions.}}{\text{Total number of questions}}$

Total number of questions

### **3.9 Data Processing and Analysis**

Collected data was edited, coded, and entered into the computer using the Statistical Package for Social Scientists (SPSS). The analysis involved the use of tables and figures to explain the findings of the study.

#### **3.1.0 Ethical Consideration**

The research introductory letter was obtained from Kampala International University, Faculty of Economics and Management, Department of accounting and finance by the researcher. He obtained a permission letter from the LC1 chairman of Kansaga village which he presented to the respondents. This gave the researcher permission to carry out data collection.

The researcher then administered questionnaires to the target respondents. Confidentiality was highly observed and the entire relevant introduction will be done to all the respondents. The researcher collected the filled questionnaires after two days and start report compilation.

#### **3.11 Limitations of the study**

The researcher was limited by enough funds especially for supporting him in the process of Data collection as this entailed choosing less sample size which might have affected the results of the study.

Some respondents deliberately refused to give information about the organization.

## CHAPTER FOUR

### PRESENTATION, DATA ANALYSIS AND INTERPRETATION OF FINDINGS

#### 4.0 Introduction

This Chapter presents data analysis, tables and figures, and interpretations made in accordance with the research objectives of the study. The chapter was divided into sub-chapters namely: Demographic characteristics of respondents and findings on objectives of the study.

The respondents demographic characteristics include; age, gender, level of education, level of experience and marital status

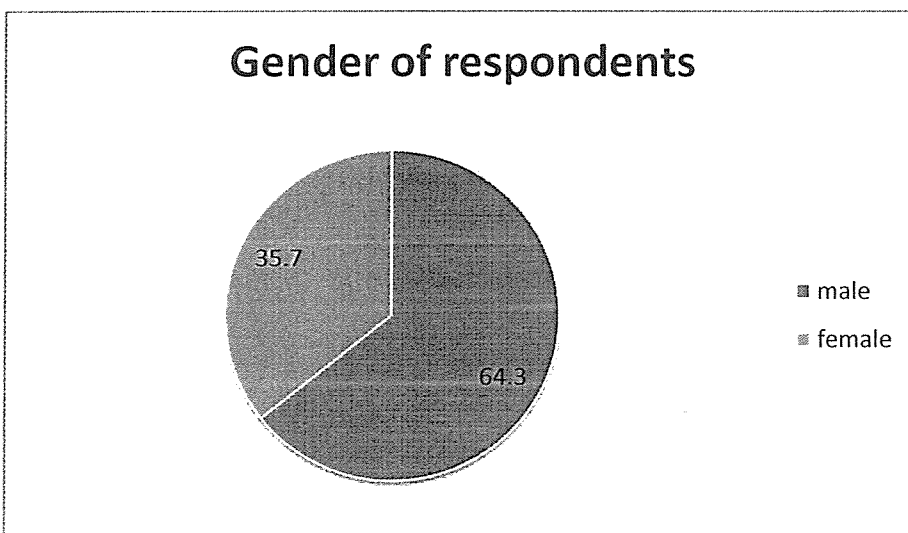
##### 4.1.1 Age

**Table 4.1: gender of respondents**

Age	frequency	Percentage
Male	18	64.3
Female	10	35.7
Total	28	100

Source primary data 2019

**Figure 4.1: Pie chart showing gender of respondents**



According to the results for gender of the respondents in table 4.1 and figure 4.1, of the 80 respondents, the majority were males (18) with 64.3% while the females were 10 representing 35.7% of the entire sample.

This therefore implies that the most dominant people in running small and medium enterprises are males

#### 4.1.2 Age of respondents

**Table 4.2: Age of respondents**

Age	Frequency	Percentage
25 and below	3	10.7
16-36	8	28.6
37-47	10	35.7
48-58	5	17.9
59 and above	2	7.1
Total	28	100

Source: primary data 2019

**Figure 4.2: Bar graph showing age of respondents**

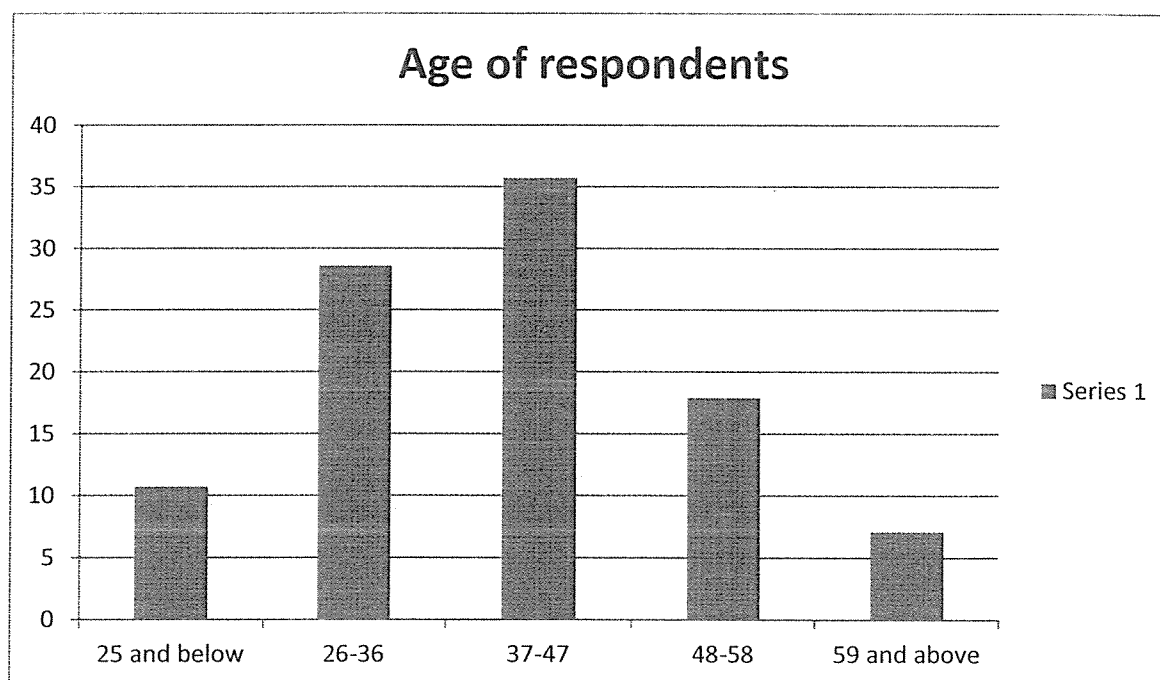


Table 4.2 and figure 4. 2 revealed that most of the respondents were in the age group of 37-47 years (10) contributing 35.7 % and were followed by those in the age- group of 26-36

years (8) representing 28.6% of the sample, those in the range of 48-58 were 5 contributing 17.9%.The minority were in the age-group of 25 years and below (3) and the age-group of 59 and above (2) contributing 10.7% and 7.1% respectively of the sample.

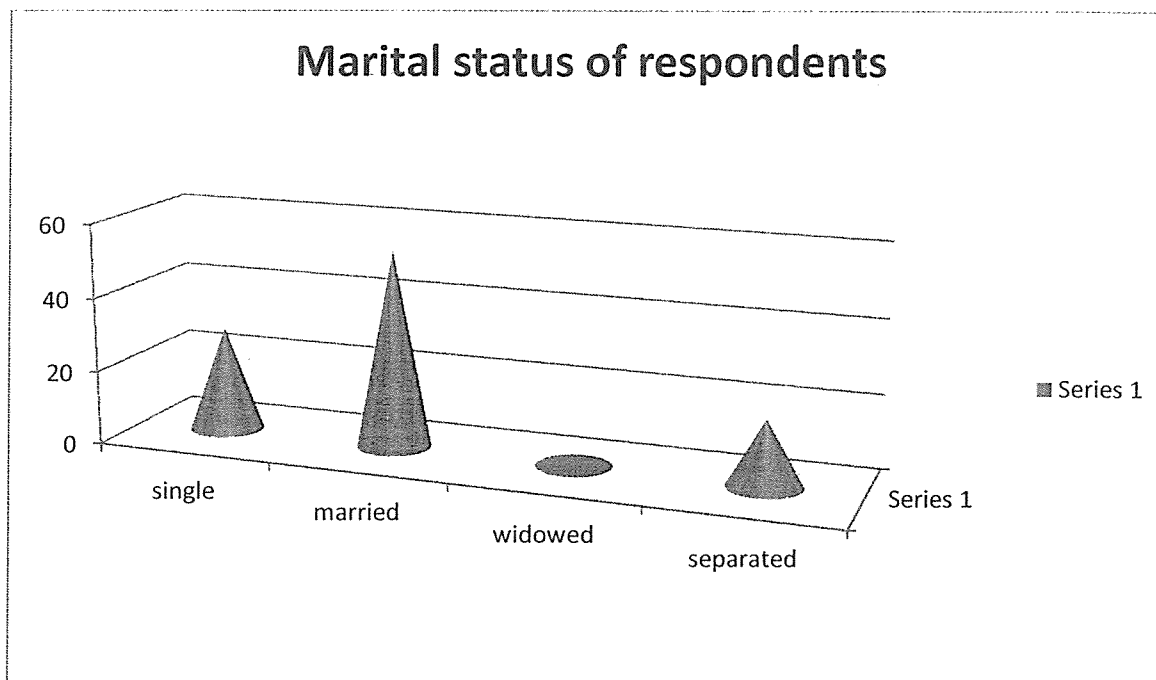
#### 4.1.3 Marital status of the respondents

**Table 4.3: Marital status of the respondents**

Marital status	Frequency	Percentage
Single	8	28.6
Married	15	53.6
Widowed	0	
Separated	5	17.8
Total	28	100

Source primary data 2019

**Figure 4.3: Column Graph showing Marital Status of the respondents**



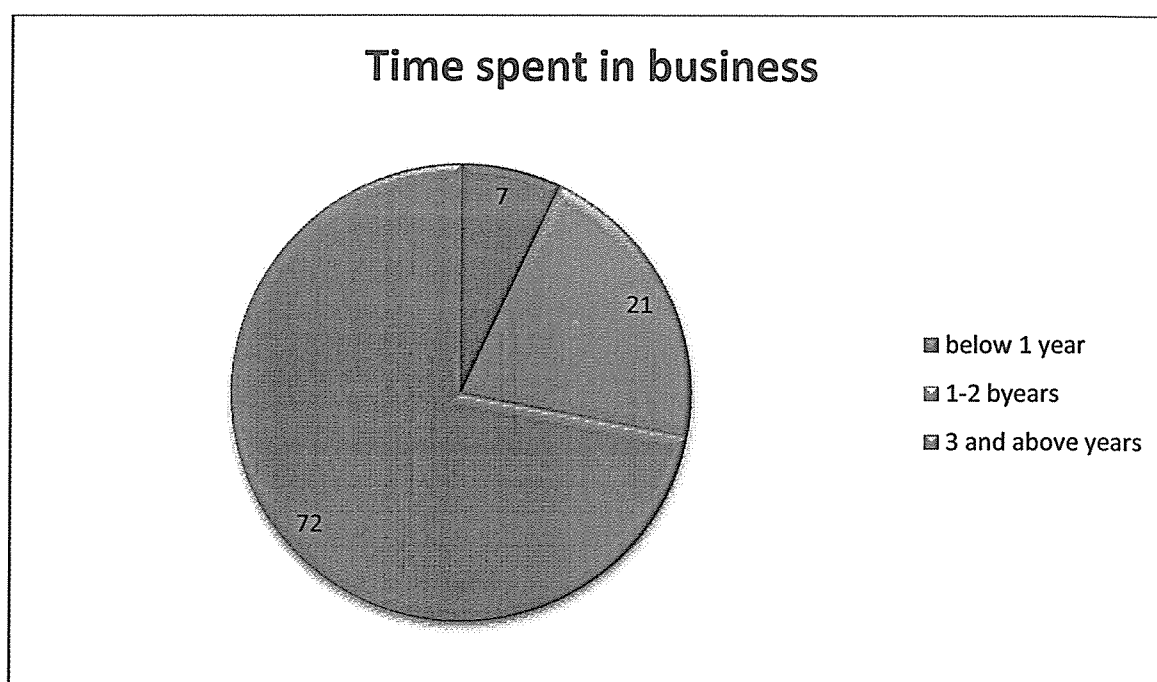
From table 4.3 and figure 4.3, majority of the respondents were married 15(53.6%), followed by the single who were 8(28.6%). Those who had separated were 5(17.8%) and none of the respondents was widowed.

#### 4.1.4 Time spent in Business

Table 4.4: Time spent in business by respondents

Working experience	Frequency	Percentage
Below 1 year	2	7
1-2 years	6	21
3 and above years	20	72
Total	28	100

Figure 4.4: pie chart showing time spent in business by respondents



The findings in table 4.4 and figure 4.4 indicated that out of the 80 respondents, the majority had spent 3 years and above years running their (20)72%, they were followed by those who had spent 1-2 years running their businesses (6)21%and the least number of respondents had spent less than 1 year running their businesses and were only (2)7%.This implies that most of the respondents had relevant experience and knowledge about the variables of the study as they had spent relevant time running their businesses .

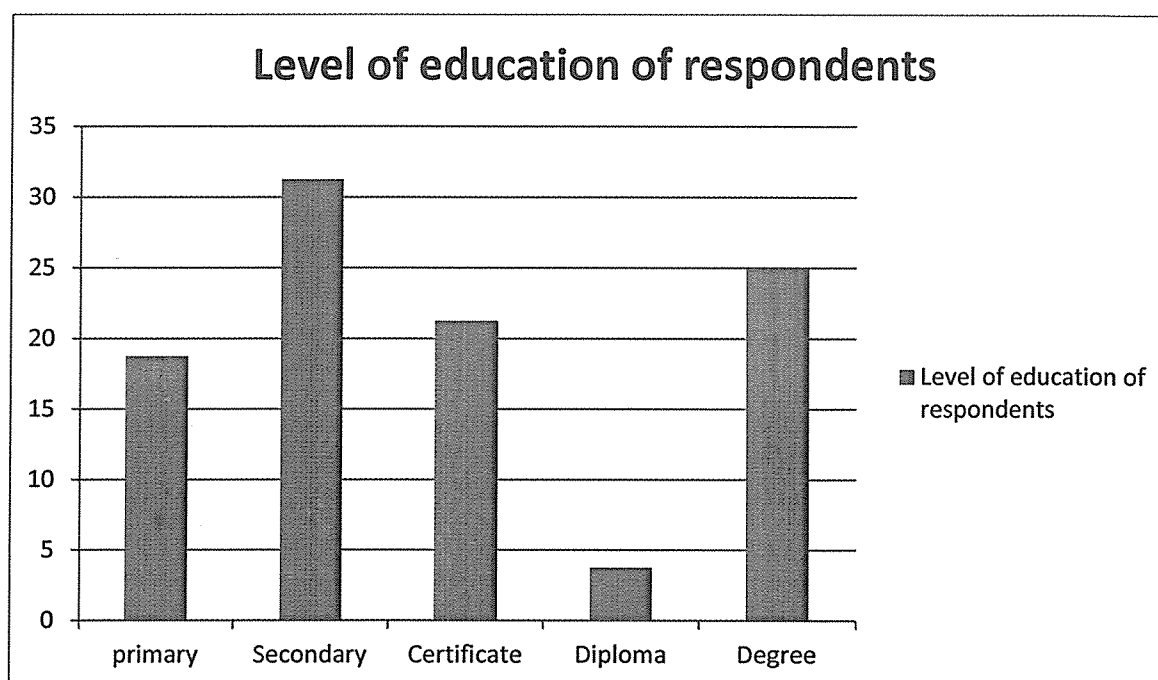
#### 4.1.5 Level of education of respondents

**Table 4.5: Level of education of respondents**

Level of education	Frequency	Percentage
Primary	5	18.75
Secondary	9	31.25
Certificate	6	21.25
Diploma	1	3.75
Degree	7	25
Total	28	100

Source primary data 2019

**Figure 4.5: Level of education of respondents**



Source: Primary data 2019

The findings in figure 4.5 and Table 4.5 show that majority of the respondents had attained secondary level 9(31.25%) followed by those who had degrees 7(25%) and those with certificates were 6(21.25%).The minority had attained primary and Diploma levels of education and were 5 (18.75%) and 1(3.75%) respectively. This implies that most of the respondents were educated and had enough knowledge to answer the questionnaires perfectly.

## 4.2: Mobile payment and performance of SMEs

Table 4.6: Responses on mobile payment and performance of SMEs

Statements	N	Responses (%)				
		SD	D	NS	SA	A
I use mobile payment to pay my suppliers	28	8.9	9.4	15.0	29.4	37.2
I use mobile payments to receive payments from my customers	28	.	.	15.6	45.0	39.4
I usually place orders from mobile phones	28	.	10.0	10	33	47.0
Receiving money from mobile payments reduces the risk of losses	28	3.3	5.0	5.0	31.7	45.0
Receiving money payments from mobile money reduces the burden of having too much cash on my premises	28	10.9	13.4	22.2	14.1	39.4
I share money with fellow business workers through mobile payments	28	.	.	16.2	32.1	51.7
Mobile payments promote efficiency in running my business	28	8.8	16.7	20.0	26.7	27.8
My business has expanded because of using mobile payments	28	.	1.7	13.3	42.6	42.4

N- Sample Size, SA – Strongly Agree, A – Agree, NS – Not Sure, D – Disagree SD – Strongly disagree

The findings in table 4.6 show that mobile payment enhances the performance of SME in Kansanga. This is from the fact that 66.6% of the respondents agreed that they use mobile payment to pay their suppliers, 84.4% of the respondents agreed that they use mobile payments to receive payments from their customers, 80% of the respondents agreed that they usually place orders from mobile phones, 76.7% agreed that receiving money from mobile payments reduces the risk of losses, 53.5% agreed that receiving money payments from mobile money reduces the burden of having too much cash on their premises, 83.8% agreed that they share money with fellow business workers through mobile payments, 54.5% agreed that Mobile payments promote efficiency in running their businesses, 85% agreed that their businesses have expanded because of using mobile payments. Since the respondents agreed to all the statements that were used to measure this objective, it implies that mobile payment greatly enhances the performance of SMEs in Kansanga.

#### 4.3. Mobile finance and performance of Small and medium enterprises.

Table 4.7: Responses on mobile finance and performance of Small and medium enterprises.

Items	N	Responses (%)				
		SD	D	N	SA	A
Through mobile finance ,I am able to obtain credit from financial institutions	28	37.8	43.9	18.3	.	.
Mobile finance has enabled me to get finances to grow my business	28	2.2	3.9	10.6	59.4	23.9
Mobile finance releases from the long process associated with banking institutions	28	5.0	3.3	25.0	35.6	31.1
Access to mobile finance enables me to serve all my customers	28	18.8	16.7	20.0	16.7	27.8
Mobile finance has greatly improved the performance of my business	28	13.3		1.7	40.6	44.4
I use MTN mo cash to boost my business	28	5.0	3.3	31.1	45.6	15.0
I use airtel wewole to boost my business	28	2.2	3.9	20.6	59.4	13.9

N- Sample Size SA – Strongly Agree, A – Agree , NS – Not Sure, D – Disagree SD – Strongly disagree

The findings in table 4.7 revealed that mobile finance improves the performance of Small and medium enterprises. This is based from the fact that 83.3% of the respondents agreed that mobile finance has enabled them to get finances to grow their businesses,66.7% agreed that mobile finance releases them from the long process associated with banking institutions,44.5% agreed that access to mobile finance enables them to serve all their customers,85% agreed that mobile finance has greatly improved the performance of their businesses,60.6% agreed that they use MTN mo cash to boost their businesses and also 73.3% agreed that they use airtel wewole to boost their businesses whereas 81% of the respondents disagreed that through mobile finance ,they are able to obtain credit from financial institutions.

#### 4.4 Mobile banking and performance of Small and medium enterprises.

**Table 4.8.** Mobile banking and performance of Small and medium enterprises.

Statements	N	Responses (%)				
		SD	D	N	SA	A
I use mobile banking to keep my money safely	28	18	.	10	27.8	43.9
Mobile banking enables me to track transactions on my bank account	28	5.0	6.7	12.2	49.4	26.7
Mobile banking prevents theft of cash	28	.	.	5.0	27.2	67.8
Mobile banking is convenient in terms of time	28	.	.	18.3	37.8	43.9
Mobile bank reduces the cost of transactions	28	70	10	5	5	10
Mobile banking encourages entrepreneurs to save more	28		10	.	70	20
Mobile banking has greatly contributed towards the growth of my business	28	5	20	5	40	30

N- Sample Size SA – Strongly Agree, A – Agree , NS – Not Sure, D – Disagree SD – Strongly disagree

The findings in table 4.8 revealed that 71.7% of the respondents agreed that they use mobile banking to keep their money safely ,76.1% of the respondents agreed that mobile banking enables them to track transactions on their bank accounts,95% agreed that mobile banking prevents theft of cash ,81.7% of the respondents agreed that mobile banking is convenient in terms of time,90% agreed that mobile banking encourages entrepreneurs to save more ,70% agreed that mobile banking has greatly contributed towards the growth of their businesses whereas 80% of the respondents revealed that mobile banking does not reduce the cost of transaction as most of the respondents revealed that mobile baking charges are high.

## CHAPTER FIVE

### DISCUSSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

#### 5.0 Introduction

This chapter presents the discussions, conclusions, and recommendations drawn from the study findings of the previous chapter.

#### 5.1 Discussion of the findings

##### 5.1.1 Mobile payment and performance of SMEs

The findings in table 4.6 show that mobile payment enhances the performance of SME in Kansanga. This is from the fact that 66.6% of the respondents agreed that they use mobile payment to pay their suppliers, 84.4% of the respondents agreed that they use mobile payments to receive payments from their customers, 80% of the respondents agreed that they usually place orders from mobile phones, 76.7% agreed that receiving money from mobile payments reduces the risk of losses, 53.5% agreed that receiving money payments from mobile money reduces the burden of having too much cash on their premises, 83.8% agreed that they share money with fellow business workers through mobile payments, 54.5% agreed that Mobile payments promote efficiency in running their businesses, 85% agreed that their businesses have expanded because of using mobile payments. Since the respondents agreed to all the statements that were used to measure this objective, it implies that mobile payment greatly enhances the performance of SMEs in Kansanga.

##### 5.1.2 Mobile finance and performance of SMEs

The findings revealed that mobile finance improves the performance of Small and medium enterprises. This is based from the fact that 83.3% of the respondents agreed that mobile finance has enabled them to get finances to grow their businesses, 66.7% agreed that mobile finance releases them from the long process associated with banking institutions, 44.5% agreed that access to mobile finance enables them to serve all their customers, 85% agreed that mobile finance has greatly improved the performance of their businesses, 60.6% agreed that they use MTN mo cash to boost their businesses and also 73.3% agreed that they use airtel wewole to boost their businesses. Whereas 81% of the respondents disagreed that through mobile finance, they are able to obtain credit from financial institutions.

### **5.1.3 Mobile banking and performance of Small and medium enterprises.**

The findings revealed that mobile banking enhances the performance of SMEs in Kansanga. This is from the fact that 71.7% of the respondents agreed that they use mobile banking to keep their money safely, 76.1% of the respondents agreed that mobile banking enables them to track transactions on their bank accounts, 95% agreed that mobile banking prevents theft of cash, 81.7% of the respondents agreed that mobile banking is convenient in terms of time, 90% agreed that mobile banking encourages entrepreneurs to save more, 70% agreed that mobile banking has greatly contributed towards the growth of their businesses whereas 80% of the respondents revealed that mobile banking does not reduce the cost of transaction.

## **5.2 CONCLUSION**

### **5.2.1 Mobile payment and performance of SMEs**

The findings of the study revealed that mobile payment greatly improves the performance of small and medium enterprises as respondents agreed to all the statements that were used to measure this objective. The most accepted statement was that their businesses have expanded because of using mobile payments which was accepted with a percentage response of 85.

### **5.2.2 Mobile finance and performance of SMEs**

The findings of the study revealed that mobile finance improves the performance of small and medium enterprises as respondents agreed to most of the statements used to measure this objective except that it was revealed that through mobile finance, they are not able to obtain credit from financial institutions.

### **5.2.3 Mobile banking and performance of Small and medium enterprises.**

The findings of the study showed that mobile banking generally improves the performance of small and medium enterprises in Kansaga as respondents agreed to statements used to measure this objective except that mobile banking does not reduce the cost of transactions. In other words the costs associated with mobile banking are high.

## **5.3 Recommendations to the study**

### **5.3.1 Mobile payment and performance of SMEs**

The government should encourage SME sector at every level to greatly adopt the use of mobile payment as it enhances the performance of SMES.

### **5.3.2 Mobile finance and performance of SMEs**

The Banking institutions should cooperate with Telecom companies in order to enable SME owners to attain finance from banks through mobile finance services.

### **5.3.3 Mobile banking and performance of Small and medium enterprises.**

The government should reduce on the taxes charged on transactions via mobile banking as respondents revealed that the costs associated with mobile banking are high.

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## APPENDIX 1: RESEARCH QUESTIONNAIRE

### MOBILE SERVICES AND PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN UGANDA

Dear respondent,

I am **Musinguzi Collins** a final year student at Kampala International University conducting a purely academic study as a partial requirement that leads to the award of the degree of Bachelor of Business Administration.

The research is about the stated topic above. The answers provided will be treated with utmost confidentiality and only for academic purposes. I therefore kindly request you to respond appropriately to the following questions.

Thank you.

#### SECTION A: PERSONAL BIODATA

##### 1. Gender

(a) Male ☐ (b) Female ☐

##### 2. Age

(a) 25 and below ☐ (b) 26-36 ☐  
(c) 37-47 ☐ (d) 48-58 ☐ (e) Above 58 ☐

##### 3. Marital Status

Single ☐ Married ☐ Widow ☐ Separated ☐

##### 4. How long have you been running your business?

(a) Below 1 year ☐ (b) 1-2 years ☐ (d) above 3 years ☐

##### 5. Educational level

(a) Primary (b) secondary ☐ (c) Certificate ☐ Diploma ☐  
(d) Degree

### SECTION C: mobile payment and performance of SMEs

In the table below, the respondent is required to tick any one option for each statement:

Apply a tick where applicable using the following key.

SA – Strongly Agree, A – Agree, NS – Not Sure, D – Disagree SD – Strongly disagree

Statement	SA	A	NS	D	SD
I use mobile payment to pay my suppliers					
I use mobile payments to receive payments from my customers					
I usually place orders from a mobile phones					
Receiving money from mobile payments reduces the risk of losses					
Receiving money payments from mobile money reduces the burden of having too much cash on my premises					
I share money with fellow business workers through mobile payments					
Mobile payments promote efficiency in running my business					
My business has expanded because of using mobile payments					

**Section C: mobile finance and performance of Small and medium enterprises.**

In the table below, the respondent is required to tick any one option for each statement:

Apply a tick where applicable using the following key.

SA – Strongly Agree, A – Agree , NS – Not Sure, D – Disagree SD – Strongly disagree

Statement	SA	A	NS	D	SD
Through mobile finance ,I am able to obtain credit from financial institutions					
Mobile finance has enabled me to get finances to grow my business					
Mobile finance releases from the long process associated with banking institutions					
Access to mobile finance enables me to serve all my customers					
Mobile finance has greatly improved the performance of my business					
I use MTN mo cash to boost my business					
I use airtel wewole to boost my business					

**Section C: mobile banking and performance of Small and medium enterprises.**

In the table below, the respondent is required to tick any one option for each statement:

Apply a tick where applicable using the following key.

SA – Strongly Agree, A – Agree , NS – Not Sure, D – Disagree SD – Strongly disagree

Statement	SA	A	NS	D	SD
I use mobile banking to keep my money safely					
Mobile banking enables me to track transactions on my bank account					
Mobile banking prevents theft of cash					
Mobile banking is convenient I terms of time					

Mobile bank reduces the cost of transactions					
Mobile banking encourages entrepreneurs to save more					
Mobile banking has greatly contributed towards the growth of my business					

Thank you for your time.

## APPENDIX II: Time and Budget Frame

Activity	1	2	3	4	5	6	7	8	9	10	11	12
Proposal development												
Doing library and internet research												
Analysis												
Compiling data												
Submission of the report												
Review and editing the report												
Submission of the final report.												

**APENDIX III: Estimated budget**

Activity	Cost/amount(UGX)
Stationary, typing and printing	150,000
Internet bundles and air time	100,000
Transport	100,000
Others	30,000
Total amount	380,000

**COLLEGE OF ECONOMICS AND MANAGEMENT  
DEPARTMENT OF ACCOUNTING AND FINANCE**

11<sup>th</sup>/07/2019

To whom it may concern

Dear Sir/Madam,

**RE: INTRODUCTORY LETTER FOR MUSINGUZI COLLINS 1163-05014-06032**

This is to introduce to you the above named student, who is a bonafide student of Kampala International University pursuing a Bachelor's Degree in Business Administration Accounting and Finance, Third year Second semester.

The purpose of this letter is to request you avail him with all the necessary assistance regarding his research.

**TOPIC: - IMPACT OF MOBILE SERVICES ON THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN UGANDA**

**CASE STUDY: - KANSANGA BUSINESS AREA, KAMPALA UGANDA**

Any information shared with him from your organization shall be treated with utmost confidentiality.

We shall be grateful for your positive response.

Yours truly,

  
**DR. JOSEPH B.K. KIRABO**  
**HOD - ACCOUNTING AND FINANCE**  
**0772323344**