EFFECT OF DIGITAL BANKING ON FINANCIAL PERFORMANCE OF MICRO AND SMALL ENTERPRISES IN NAIROBI COUNTY, KENYA

BY

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DECLARATION

Declaration by the student

This thesis is my original work and has not been presented for a degree in any other University. No part of this thesis may be reproduced without the prior written permission of the author and/or Moi University.

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DEDICATION

I dedicate this work to my parents Mr. and Mrs. Kamunyu, My Husband Mr. Isaac Kamuni, my brother and sisters and friends for their love and encouragement throughout my studies. Thank you and God bless you.

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I am grateful to God for seeing me this far through His grace. I express sincere gratitude to my supervisors Dr Kirui and Dr Kiano for the approval, guidance and encouragement throughout the period of this thesis.

ABSTRACT

Financial performance of MSEs is critical to the performance of the economy since MSEs are some of the best supporters of the government through employment. In recent years' banks have developed innovative products and offered a wide range of services in an effort to improve their performance, which is the ultimate goal of banks. Digital banking has several benefits to financial services users such as the micro and small enterprises and the digital banking providers. The general objective of the study is to establish the effect of digital banking on the financial performance of micro and small enterprises in Nairobi County, Kenya. The specific objectives of the study are to determine effect of digital payments on financial performance of micro and small enterprises in Nairobi County, to establish influence of digital credit on financial performance of micro and small enterprises in Nairobi County, and to establish influence of digital savings on financial performance of micro and small enterprises in Nairobi County, Kenya. The study was guided by the theory of financial innovations, the technology acceptance model theory, and the diffusion of Innovation Theory. This study employed explanatory research design. The target population is comprised of retail traders/managers in the micro and small enterprises in Nairobi County. For purposes of this study, the population was MSEs, which conduct their business in Nairobi County. From the target population of 10,079 retail traders, Fishers et al (2007) formula was used to pick a sample of 384 retail traders as the sample of the study. The study utilized a semi-structured questionnaire to collect data from the respondents. Data was analyzed aided by descriptive statistics, including variability and central tendency measures of frequencies. Findings of the diagnostic tests revealed that there was no multi collinearity among the independent variables (VIF=1.281), and the results of the normality test showed that the variables were normally distributed. The findings of the study were that there was a positive and significant relationship between digital payments and financial performance ($\beta_1=0.682$, $p=0.000<0.05$), there was also a positive and significant relationship between digital credits and financial performance of micro and small enterprises ($\beta_2=0.266$, $p=0.003<0.05$). There was also a positive and significant relationship with financial performance of micro and small enterprises in Nairobi County ($\beta_3=0.488$, $p=0.007<0.05$). The study concluded that digital payments, digital savings and digital credits had a positive and significant effect on performance of micro and small enterprises in Nairobi County. The study recommends that more needs to be done in terms of applications security due to the risk of cyber-attacks and fraud. Institutions should invest more on research to ensure that their applications used by customers are safe to prevent cyber-attacks and fraud. The study also recommends that MSE's need to maintain a good record of credit and improve on their saving to access more credit through the digital credit applications.

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OPERATIONAL DEFINITION OF TERMS

Digital Banking This is the ability to do banking transactions using a mobile device to perform financial dealing through a terminal (Darrat, 2009).

Digital Credits The use of smart phones and other digital devices to access loans (Zissis & Lekkas, 2012).

Digital Payments The use of electronic devices to transfer value from one person or account to another, or to facilitate payments (Mishra & Bisht, 2013).

Digital Savings The use of digital devices to electronically deposit or save money in ones' account for future use (Almazari, 2011).

Financial Performance Measure of the change either positive or negative in the financial state of an organization (Carton, 2012).

Internet Banking This is the delivery of banking services to customers through the internet via mobile phones or computers (Alemany, 2014).

Micro Enterprise A business enterprise that is started with a small amount of capital and employs less than 10 people (Ondrus & Pigneur, 2005).

Small Enterprise Any firm employing less than 100 employees (Ondrus & Pigneur, 2005).

ABBREVIATIONS AND ACRONYMS

CBD Central Business District

DFS Digital Financial Services

IDB Islamic Development Bank

MSEs Micro and Small Enterprises

NC Nairobi County

PEOU Perceived Ease of Use

PU Perceived Usefulness

SSA Sub-Saharan Africa

TAM Technology Acceptance Model

USA United States of America

CHAPTER ONE

INTRODUCTION

1.1 Overview

This chapter contains the section that provides an introduction to the research. This chapter discusses the background of the study, the statement problem, the objectives, the research questions, the significance, and the scope of the research. The parts that follow provide a comprehensive explanation of the topic covered in the introductory chapter.

1.1.1 Background of the Study

Due to the fact that micro and small enterprises (MSEs) are plagued by a multitude of issues, including stagnation and failure, the financial performance of MSEs has not been desirable in the majority of nations in sub-Saharan Africa (Bekele & Zekele, 2010). organizations that have fewer than ten employees are referred to as micro and small enterprises (MSEs), while organizations that have between ten and forty-nine employees are considered to be small enterprises. According to Perry and Pendleton (2012), the ineffective financial performance of micro, small, and medium-sized enterprises (MSEs) and the high failure rate of these enterprises have a detrimental influence on their capacity to meet the goals of alleviating poverty, creating employment opportunities, redistributing income, and fostering economic progress. In the context of Kenya, despite the efforts of the government to support the operations of micro, small, and medium-sized enterprises (MSEs), it appears that not much progress has been achieved. This is evident from the poor financial performance of the informal economy (Perry & Pendleton, 2012).

According to Ayopo (2014), the problem of financial performance of micro, small, and medium-sized enterprises (MSEs) is not limited to a lack of long-term financing, inadequate management skills, and entrepreneurial capacity independently. It additionally encompasses the combined impact of things like inadequate access to markets, insufficient information flow, discriminatory legislation, deprived access to land, weak linkage among various segment of operations throughout the sector, weak operating capabilities in terms of skills, knowledge, and attitudes, as well as a lack of infrastructure and an undesirable economic environment. On the other hand, Tambunan (2013) asserts that the microeconomic variables that contribute to the poor financial performance of micro, small, and medium-sized enterprises (MSEs) are working capital, marketing competence, the availability of financial resources, technological expertise and management, gain access to productive resources like capital, information, technology, and markets, and the accessibility of business networks.

The financial performance of micro to small enterprises (MSEs) is being recognized on a global scale for the critical role they play in supporting economic growth at the grassroots level and equitable sustainable development. In both the United States of America (USA) and the countries of Europe, micro and small businesses are defined as businesses that have less than 500 employees. In the context of developing nations, a micro and small enterprise is defined as any business that has fewer than one hundred employees. As a result of more deliberate government policies and regulations targeted at supporting micro and small enterprises as drivers of economic growth and employment creation, micro and small enterprises have grown more prominent in the economic matrixes all over the world in recent years (Tambunan, 2013).

There are also booming micro and small enterprise sectors in Asian countries such as India, Indonesia, And did you go 16,000 China, Malaysia, Japan, and South Korea. These sectors contribute between 70 and 90 percent of employment and it is projected that they contribute 40 percent to their national gross domestic products. It is projected that the micro and small enterprises sector contributes more than 70 percent to employment and 30 to 40 percent to gross domestic product in Africa, which includes economic powerhouses such as South Africa, Egypt, Nigeria, and Kenya. However, it contributes less than four percent to earnings from exports. (Perry & Pendleton, 2012).

A significant contribution to the economy of Kenya is made by the micro and small enterprises, also known as MSEs. Credit is extended to micro and small enterprises (MSEs) by financial institutions as part of their primary business operations. Not only do financial institutions offer this particular financial service, but they also offer non-financial services such as business education, financial oversight, and company management. These services are designed to assist their customers in becoming better able to handle the loan resources that have been allocated to them. Financial institutions, in addition to providing services related to financial intermediation, also offer social intermediation services. These services include the establishment of groups, the development of self-confidence, and the training of members of the group on financial literacy and management. There are a variety of financial products and services that are offered to micro and small enterprises (MSEs), including savings, credit, insurance, credit cards, and payment systems (Abiola, 2014).

Because micro and small enterprises (MSEs) require a variety of supportive and sustainable financial services in order to fully capitalize on abundant resources in their area of specialization and realize their full potential, the ease with which banking services are made available to MSEs is a critical factor in determining how they run their businesses. Having access to financial services is a critical business environment concern for the micro, and small, enterprises (MSE) sector, as stated by the World Bank (2015). Without sufficient finances for working capital, investment in fixed assets, and hiring of qualified personnel, no company can exist, regardless of how well it is managed. Finance is the lifeblood of any company, and no company can thrive without sufficient funds.

According to Alemany (2014), the provision of banking services enables micro,and small, enterprises (MSEs) to gain access to financial resources, which in turn enables them to make the investments that are necessary to enhance the productivity and competitiveness of their operations, as well as to create new markets and grow the number of employees they employ. Because they do not have the cash flow to make substantial investments, they are unable to access capital markets in the same way that large firms do, and they frequently do not have skilled staff to execute financial activities, micro,and small, enterprises (MSEs) have a specific need for the services that banks provide (Beck et al, 2014). The provision of long-term financing by banks can make it possible for micro,and small, enterprises (MSEs) to invest in expansion without sacrificing ownership. Moreover, micro, and small, enterprises (MSEs) might benefit from working capital and short-term loans.

According to West and Fair (2012), performance is defined as a function of an organization's capacity to utilize the resources at its disposal in a manner that is both efficient and effective in order to achieve its particular goals and objectives. There are two levels at which performance can be evaluated: the person level and the organizational level. Additionally, performance evaluation is sometimes referred to as performance appraisal. He emphasizes that companies have desirable potentials in terms of capacity attraction, market share, and financial strength, and that performance is the gap between those potentials and what has been realized. He believes that performance is the difference between expectations and actual results.

As a result, having a solid understanding of digital banking and financial performance is essential because it enables one to identify certain aspects that, in this age of digitalization, ought to be treated with a greater degree of interest in order to enhance the financial performance of these institutions. Lately, the performance of micro, n nda small, enterprises (MSEs) has attracted increased attention as a result of the collapse of numerous MSEs all over the world, including in our own nation, Kenya. According to Gavrea, Ilies, and Stegerean (2017), the complexity of the global business environment has recently resulted in significant levels of uncertainty among enterprises across all sectors. This has reinforced the necessity for organizations to strengthen their vigilance with regard to the success of their operations. Due to the complexity of global business, there is now a high level of rivalry, which compels companies to make investments in digitalization in order to continuously improve their performance. Yet, empirical evidences on the performance of micro, and small, enterprises (MSEs) have documented a variety of conclusions, the majority of which indicate that performance varies across different industries.

Every organization operates for the purpose of accomplishing a specific objective. The existence of particular defined aims, a time frame for accomplishing those specified targets, and the realization of efficiency and effectiveness are all components that make up organizational performance, which is the ultimate accomplishment of an organization. One can categorize the performance of an organization into two categories: financial and non-financial categories. An organization's financial performance is defined by Carton (2012) as the measurement of the change in the organization's financial status or the financial outcomes that emerge from management decisions and the successful implementation of those decisions by members of the organization. Also known as the financial outcomes. Return on equity, return on assets, return on capital, return on sales, and operating margin are all examples of methods that can be utilized to evaluate an organization's financial success. Not only that, but growth measures that are derived based on sales and total assets can also be included in the definition of financial performance.

Leverage, liquidity, and cash flow measures are some examples of the types of measures that can be used to evaluate a company's financial performance. These measures include the debt to equity ratio, the operating cash flow to equity ratio, and the growth rate of operating cash flow. Additionally, there are market-based measures, such as the cost of equity capital and the price to book ratio. The final category of measures is known as economic value measures, and it includes residual income and residual income return on investment. According to Koontz and Donnell (2003), non-financial indicators of performance can include the total number of employees, the quality of the product, the market share, and the ability to survive at a predetermined period employing the appropriate plan for action or survival.

In order to evaluate how well an organization is progressing toward its stated goals, to establish its areas of strength and weakness, and to make decisions regarding future initiatives with the intention of determining how to launch performance improvement, performance serves as the foundation upon which an organization can evaluate its progress. When it comes to micro and small businesses, performance assessment is a one-of-a-kind process due to the distinctive qualities that MSEs po I am going to 15 ssess in comparison to other large companies (Brem, Kreusel, & Neusser, 2013). Increases in sales volume, cash flow, and profitability were used in this study to measure the financial performance of micro,and small, enterprises (MSEs). The use of sales was indicative of the revenue that was obtained from investments, but the utilization of business-operating cash suggested that the MSEs had a good cash management system.

Low profitability, low portfolio quality, low operating efficiency, and high cost of operations are some of the characteristics that are associated with poor financial performance in small and micro enterprises, according to empirical research that has been gathered from around the world. In a similar vein, micro,and small, (MSEs) in Africa exhibit poor financial performance, as demonstrated by low efficiency ratios, diminishing operating margins, and rising operational costs (Daher and Erwan, 2015). The tendency is the same in the context of Kenya, as demonstrated by the statistical evidence that performance is on the decline with a rise in operating expenses, a fall in capital adequacy ratio, and low levels of liquidity ratio (Agola, 2014). In addition, the ratio of capital to operational costs is decreasing.

According to Anyasi and Otubu (2012), the term "digital banking" refers to the process of conducting banking transactions using mobile devices such as tablets or cell phones. According to Darrat (2009), it is the capability to conduct banking transactions through the use of mobile devices in order to carry out financial dealings through a terminal. Any type of conversation which includes the transfer of rights to control or make use of facilities or goods is considered to be digital banking. This type of correspondence can be initiated and/or cleared by remote access to a variety of distinct networks. This is made possible by the utilization of automated gadgets such as mobile phones and tablets. According to Akinci, Aksoy, and Atilgan (2014), developments in information technology have had a significant impact on the banking business, resulting in the creation of more flexible methods of compensation and banking facilities that are more user-friendly.

The worldwide banking and payment sector is undergoing a revolution as a result of the introduction of digital banking technology through mobile phones. There are millions of people in developing countries who have ownership of a cell phone but are nonetheless excluded from the mainstream of the financial system (Kithaka, 2014). Digital banking provides an acceptable solution for these thousands of people. Since it provides new opportunities for banks to provide more convenience to their current consumers in both developed and developing countries, banks have recently shifted away from traditional banking and toward branchless banking. This is because branchless banking offers banks the opportunity to connect an enormous number of unbanked customers in emerging markets. Given that micro,and small, enterprises (MSEs) are among the most effective employers of the government, the financial performance of MSEs is of the utmost importance to the overall success of the economy. In recent years, banks have made an attempt to improve their performance by developing novel products and offering a wide range of services (Mugodo, 2016). This is the ultimate goal of banks, and they have undertaken these efforts in an effort to achieve this goal.

The availability of financial services has grown thanks to the development of digital banking, which offers a larger variety of services that are tailored to all sectors of society. A strong return on capital can be obtained by banks by relying on the number of customers and the type of banking they provide. It is difficult for banks to provide services to retail consumers because retail customers are dispersed over a variety of geographical regions. This presents a difficulty for banks because the success of banks is largely dependent on retail and corporate banking operations. In light of the fact that the brick-and-mortar system was also found to be costly, digital banking provided a means by which financial institutions could overcome this challenging situation.

According to Bonface and Ambrose (2015), the industry of banking in Kenya has witnessed a consistent expansion of digital banking over the course of the past ten years.

Customers in Malaysia are able to conduct financial transactions via mobile phone devices, rather than having to physically visit banks (Razak, 2013). This is an example of how digital banking has been rapidly adopted in the country. The scenario is the same in South Africa, where banks have formed partnerships with mobile device service providers in order to offer digital banking services. These services include mobile banking, the depositing of money into personal accounts, the withdrawal of funds from accounts, short-term loans, and the payment of bills, among other things (Makee, 2014). As a result of this development, digital banking providers have continued to invest in facilities of this kind in order to successfully supply digital banking amenities to micro and small businesses.

Effective digital banking development has been found in Africa as well as South Asia. Sub- Sahara Africa (SSA) has greater numbers of exclusive subscribers as compared to Latin America before the end of 2017, ranking the area third behind Asia Pacific and Europe. Rouse and Verhoef (2018) believes that by the end of 2016, SSA exclusive subscribers had risen from 200 million in 2010 to 386 million in 2016. Recently, The Africa Development Bank (2018) predicted that the implementation of digital banking through mobile money in African countries particularly sub- Saharan countries had overtaken proliferation in the rest of the globe. The survey revealed an increasing trend for digital banking throughout the continent.

Digital banking is already a daily reality for Tanzanian, Kenyan, and Rwandan micro and small enterprises that use digital technologies to transact. providing financial services by means of technological innovations, such as mobile money, can serve as a catalyst for the supply and utilization of a wide range of other financial services, which includes credit, insurance, savings, and financial education, all of which bring significantly to improving the financial performance of small and micro enterprises. According to Spence et al. (2010), those who are currently excluded can have greater access to money-transfer services, microloans, and insurance. The only choice left for MSEs is to obtain funding from informal financial services providers like moneylenders or family, typically at high interest rates. Many microentrepreneurs cannot afford to expand their businesses or enhance their living standards due to finance issues. In comparison to developed countries, emerging countries' financial markets remain relatively tiny.

Nairobi, the capital city of Kenya, is located in Nairobi County (NC). The largest and most rapidly expanding city in Africa is Nairobi. Additionally, it serves as the main administrative, commercial, and cultural hub of Kenya. Nairobi is the capital of Kenya, and the national baseline survey (National Baseline Survey, 2017) found that 17% of all MSEs are situated there. As per the licensing data furnished by the Nairobi County Licensing Office in 2017, the Nairobi County Government has 76,252 MSEs that are registered. Small and micro enterprises, from the perspective of Kenya, are businesses with two to fifty employees. They struggle to get credit that is sufficient, affordable, and timely; they have trouble marketing because they don't have enough resources or qualified workers; and most of them can't integrate into large-scale business relationships because they don't have international standards and quality controls. The majority of MSMEs do not hold any kind of accreditation, which significantly lowers their chances of forming mutually beneficial partnerships with larger businesses.

Due to their minimal startup capital requirements, MSEs have become increasingly popular among young entrepreneurs. Rural-urban migration has made matters worse because most young people relocate to urban areas in quest of opportunities, which are hard for them to find because they are scarce in supply. As a result, they end up starting micro and small enterprises that can survive on their own because they don't need much cash to get off the ground. However, due to their high rate of motility, MSEs may also be responsible for the greatest number of wealth and professional problems, which restricts their ability to create long-term, sustainable employment (Ahwireng, 2013). Nairobi County has the highest MSE failure rate, which is why it is of relevance to concentrate on Nairobi County for the purposes of this study.

The fact that MSEs experience significant levels of business shrinkage and are unexpected contributes to their high motility rate (Wagana, 2014). Upgrade projects have been launched by a few organizations, which affects MSE's progress in relation to the growth and development of projects. Included in these associations are non-administrative, intentional associations, and business affiliations. There are increasing numbers of aid groups eager to fund MSEs each year, however not everyone has been happy with the growth and advancement of MSEs.

1.2 Statement of the Problem

Due to their crucial function in creating jobs and reducing prevalence of poverty, small and micro enterprises play an essential and major part in economic growth. But by year two, up to 40% of MSE start-ups are predicted to fail, and by year four, at least 60% have shut down. This threat is a result of small enterprises' inadequate financial management. One of the biggest obstacles to MSE performance and development is their inability to access banking services and credit facilities. The primary reasons for this are that the majority of banks are found in cities and that the majority of MSE owners lack the necessary literacy to use the new digital technologies that banks provide in order to access their banking services. Other factors that contribute to the poor financial performance of MSEs in Nairobi County include asymmetry of information and the way lenders hedge against the risks of borrowers by requiring collateral, which they lack.

The underwhelming financial performance of MSEs is a global issue as well as one that exists in Kenya. According to Sha (2006), MSEs in Africa have a high failure rate and low financial performance, however Perry & Pendleton (2009) contend that despite government efforts to encourage MSE activity, not much progress appears to have been made based on the poor performance of the informal sector. The majority of the reason for this poor performance is that these MSEs have not adopted digital banking technology that may streamline their banking requirements, even if access to financial services is one of the major contributing factors.

Prior study on the financial performance of MSEs revealed methodological, conceptual, and contextual research shortcomings. Mashamba et al. (2014) used secondary data to examine the link globally between banks' deposit interest rates and deposit mobilization in Zimbabwe for the years 2000–2006. While Abdelrahman (2013) used secondary data to look into the difficulties and restrictions associated with using Islamic finance to support micro and small businesses in Islamic Development Bank (IDB) member countries, Okolo (2015) evaluated the effects of consolidation of banks on the performance of micro and small scale enterprises in the Nigerian economy employing a multiple linear regression technique and correlation matrix test.

Mashenene (2015) investigated the relationship within the framework of Tanzanian small and micro enterprises. The results showed that Micro and Small Enterprises, which use mobile phone-related services in their operations, differed significantly in terms of capital growth. Litondo (2018) investigated the relationship utilizing the example of MSEs in Kenya's informal sector and found that the use of mobile phones in business had a major impact on sales. Due to the fact that these investigations were carried out in an environment distinct from the current study, they exhibit contextual research gaps. Additionally, the variables that the studies are examining differ from the variables that are being studied now, creating a conceptual research gap.

The importance of digital banking as a means to access financial services among MSEs and the effects it has on financial performance has been overlooked and the MSEs in Nairobi County are no different. Therefore, a research gap exists, and this study seeks to establish the effect of digital banking on the financial performance of micro and small enterprises in Nairobi County.

1.3 Research Objectives

1.3.1 General Objective

The general objective of the study is to establish the effect of digital banking on the financial performance of micro and small enterprises in Nairobi County, Kenya.

1.3.2 Specific Objectives

The specific objectives of the study are;

i) To determine effect of digital payments on financial performance of micro and small enterprises in Nairobi County, Kenya.

ii) To establish influence of digital credit on financial performance of micro and small enterprises in Nairobi County, Kenya.

iii) To establish influence of digital savings on financial performance of micro and small enterprises in Nairobi County, Kenya.

1.4 Research Hypotheses

The following hypotheses were derived from the objectives:

H_{01} There is no significant relationship between digital payments and financial performance of micro and small enterprises in Nairobi County, Kenya.

H_{02} There is no significant relationship between digital credits and financial performance of micro and small enterprises in Nairobi County, Kenya.

H_{03} There is no significant relationship between digital savings and financial performance of micro and small enterprises in Nairobi County, Kenya.

1.5 Significance of the Study

Significance is the rationale for the research, or the reason why the research is being conducted (Shields & Rangarjan, 2013). This study was significant to other micro and small enterprises in Kenya as they understood the roles played by digital banking and develop necessary measures to optimize the benefits of digital banking to their businesses. Financial institutions in Kenya can also use the findings of this study to develop policies that enhance the development of new services in digital banking and provide a broader range of services needed by micro and small enterprises in Kenya. Lastly, the Government of Kenya can use the findings of this research to develop policies that regulate the business operations between the micro and small enterprises and the service providers in order to provide a good regulatory framework.

1.6 Scope of the Study

The aim of the study was to investigate the effects of digital banking on the financial performance of micro and small enterprises; a survey of Nairobi county, Kenya. The study was conducted in Nairobi County and targeted various MSE's. The study incorporated data collected in the year 2022.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter contains a review of relevant scholars and empirical literature that is arranged according to the study variables. The chapter also contains a summary of the gaps in the previous studies that this study addressed and a conceptual framework detailing the relationship of the study variables.

2.2 The Concept of Financial Performance

Every project requires an accounting of the investment in order to let managers decide whether to carry out the current operations, make changes, or undertake a total overhaul (Tanui et al., 2020). According to Jacob et al. (2021), performance measurement is the process of determining how resources are being used and what results have been achieved. The results of an endeavor are referred to as performance, and they can be expressed in either non-financial or financial terms. Non-financial performance might include things like customer satisfaction, customer repurchase, and employee retention. Financial performance can be measured by metrics like returns on assets, profit margins, and sales volume for a business initiative.

According to Jayeola et al. (2018), there are two methods to assess the performance of business enterprises: one approach is to concentrate on the elements that affect organizational outcomes. Although it is implied that operational and financial performance can be used to evaluate performance, the idea behind using output as a competitive metric is the widespread conviction that an organization's long-term success is based on its capacity to offer more actual value to its clients without requiring additional inputs. Byamaka (2018) stated that when it comes to performance, the competitive influence of mobile phones arises from their impact on the performance of the factor inputs. In this aspect, cell phones can enhance productivity and performance in many different kinds of ways, including boosting business operations efficiency, cutting transaction costs, improving consumer connectivity, and increasing sales volumes.

Because they determined the stability, productivity, and profitability of the economy, small and micro enterprises (MSEs) play a crucial role in emerging countries and their economies. MSEs have a similar role in the local population's economic well-being as they do (Atiku & Abatan, 2021). In an attempt to increase productivity and profits, MSE owners may interact with customers and suppliers, search the internet, and get knowledge about how to run their businesses more efficiently. They can also market on various social media platforms by utilizing digital technology. Sekere (2016) asserts that the MSE sector's ability to thrive economically depends on its members' ability to access information and technologies. This is because these resources can be used more efficiently when they are available, and technologies have the potential to improve people's quality of life. As a result, the MSE's performance was evaluated financially using sales as a proxy for MSE performance.

2.3 Concept of Digitization

Digitization is linked to the growth and performance of micro and small enterprises globally due the firm competitiveness that results from innovation. The extent to which digitization has been implemented among MSEs vary across the globe. A 2017 OECD survey on the level of innovation among MSEs in OECD countries indicated that on average, MSEs were less innovative than large companies.

One important component of the corporate environment that has undergone significant change is digitization. This is particularly true in the areas of information communication and technology, as well as in the creation of new technologies that are applied in various parts of the world (Somthawinpongsai et al., 2021). As a crucial element and fuel for economic progress, mobile phone usage has increased recently. According to Krone et al. (2016), digitization is the technology that enables sophisticated features for GPS navigation, gaming, internet browsing, and the usage of social media applications on cellular handsets in addition to supporting messaging and phone calls. According to Aron and Muellbauer (2019), the increase in the usage of mobile phones can be ascribed to several variables such as the ease of use of these devices, minimal educational requirements, adaptability of prepayment options, utilization of regional languages, and deregulation of the communications industry.

In many urban and rural areas, digitization with digital phones has turned essential and is being utilized to change how the economy operates (Hill et al., 2021). When digital phones were first released, their only uses were for making phone calls and sending SMS messages. However, as time went on, these devices were upgraded to include browsing, taking pictures, transferring data to other systems, and having memory for storing information. This has completely changed the digital landscape and made business operations more straightforward and effective (Sekabira & Qaim, 2017). Within companies, traders utilize this technology to communicate with their clients, vendors, and associates. The owners of MSEs may text their customers to boost sales, therefore it may become typical to receive alerts about the introduction of new stock, fast sales, and discounts (Nzayisenga, 2017).

2.3.1 Digital Credits

In Kenya, the lack of an established capital market leads small and micro enterprises to depend on self-financing or borrowing from friends or family. This is one way that credit constraint occurs. Micro enterprises are forced to rely on expensive term finance since they are unable to obtain long-term credit (Nair, 2015). These issues arise from the greater number of formal lending institutions' tendency to classify all small and micro enterprises as credit-worthy despite differences in size (Omwansa, 2016).

However, the emergence of less formal foundations like digital credit eases this burden for the micro and small enterprises and boosts their ability to borrow credit due to their inadequate funding, many microcredit institutions are unable to grow. They cannot readily convert the savings they accumulate into medium- or long-term loans because their primary source of funding is short-term. (Nzuki, 2013).

Most of the micro and small enterprises are also up against the cost of refinancing through the formal banking sector and have no capital of their own (Wanjohi, 2014). Digital credits simplify the process of access to loans by micro and small enterprises. According to surveys carried out in Ghana by Razak (2013), owning a mobile phone improved access to small loan markets and enhanced business efficiency. Njenga (2016) has thoroughly examined M-Pesa as a platform for micro and small businesses to obtain digital credits after noticing specific usage patterns. Even though M-Pesa was not used for money storage, most micro and small enterprises use it to access digital credits to improve on the performance of their businesses. Even for small businesses, using and having access to more advanced financial services like credit, insurance, and savings through digital money services may be more advantageous (Donovan, 2015).

Another way to think of digital credit services is as a branchless banking variant with the ability to provide financial services outside of traditional banks (Pagani, 2015). Micro and small enterprises can gain a lot from the observation made by Raddi (2013), including access to loans and other financial services as well as formal banking sector accessibility using digital banking services.

Microenterprises use digital credit services to make payments for their insurance premiums, accumulate assets, and seek credit (Hajri, 2014). Digital credit assists MSEs to save money on digital bank accounts and get credit, which enable them to deliver goods and services to their clients. Improvements in service delivery benefit their commercial dealings. However, the inability of micro enterprises to obtain finance remains a key concern, limiting the development of new businesses and preventing others from growing and developing. This conclusion is consistent with the findings of Booster et al. (2013), who determined that debt collection, a lack of operating capital, and insufficient sales constitute the top five issues confronting micro and small firms. Due to these constraints, small enterprises lack the financial resources to expand and thrive.

The majority formal financial institutions regard micro enterprises as uncreditworthy and so refuse to lend to them (Atieno, 2013). One of the causes for MSEs' poor growth has been attributed to an absence of availability of financial resources. This, combined with negative perceptions about them, has a negative impact on their capacity to receive financial services offered by financial institutions. The goal of flexible budgetary exchanges is to improve the effectiveness of microfinance by employing mobile saving money innovation making exchanges speedier, less expensive, and more secure (Guagraw, 2017).

Unsecured digital credits and loans are helping to boost millions of micro and small enterprises (MSEs) across East Africa (Soderberg, 2014). Lack of accessibility to banking services was a contributing factor in the 38% of Kenyans who did not have any kind of financial services available to them in the beginning of 2007. Affordable mobile phones penetration into the market and the development of innovative digital banking applications opened up most of the banking services to the masses (Kigen, 2014). Micro and small business owners that have access to digital banking services are able to save, which improves the operation of their companies. Higher savings through digital banking services raises the likelihood that microbusinesses will be able to obtain funding that supports expansion (Koivu, 2014).

2.3.2 Digital Payments

The expansion of digital banking services is a boon to micro firms, who would not have been able to receive adequate service from commercial banks in the absence of this development. Banked individuals have the ability to access their accounts using their mobile devices, specifically their phones. (Joseph, 2015) There has been a significant expansion of digital banking services in order to serve customers in rural areas. The ideal that it offers has also contributed to an increase in the utilisation of the platform for the purpose of carrying out a variety of transactions that can be given through registered agents or banks. Within the structure that is already in place, both the individual who makes the repayment and the person who accepts the money are closely connected to one another. As well as facilitating communication, mobile phones also facilitate the processing of financial transactions. According to Bangens and Soderberg (2015), the new technology is relevant not only for transactions that take place locally but also for those that take place internationally.

One of the most important aspects that clients consider when evaluating the quality of digital banking services is the time factor. The value that consumers place on the ability to save time is a significant aspect that determines their preference for using digital banking. The utilisation of digital banking services can guarantee that transactions of this nature are completed in a timely manner, at a relatively cheap cost, with a relatively low risk, and can be auditable (Caporaso, 2014). Digital banking was initially introduced by financial institutions with basic features, such as the ability to check account balances, access information about interest rates in real time, and determine eligibility for personal loans. Following that, the services are expanded to include the payment of bills online, the movement of funds between accounts, and cash management services for business organisations (Davis, 2014).

According to Frost (2014), microenterprises are distinguished by the frequency of their financial transactions, which may involve significant sums of money or extensive long distances. Consequently, digital phone financial transactions offer customers a means by which they can reduce their expenditures and save time by utilising a method that is both more cost-effective and more convenient for carrying out their financial transactions (Pousttchi, 2013). Cell phone monetary exchanges help smaller scale organizations to diminish data asymmetries and market wasteful aspects consequently empowering them to accomplish better execution (Jensen, 2015). In addition, micro enterprises in Kenya view financial transactions conducted via mobile phones as instruments that have the potential to facilitate their activities by changing their goals into outcomes (Chogi, 2015). Chogi (2015) asserts that this, in turn, has an impact on the financial viability and efficiency of the organisation.

According to Dube (2015), the most significant benefit of digital banking is the ability to move information about the value of money to any location at any time, while only requiring a few clicks of the mouse. The utilisation of M-Pesa as a digital payment method in Kenya is proving to be extremely beneficial for micro and small enterprises. The owners of micro enterprises spend more time operating their businesses and go to the bank when they need money less frequently. Additionally, a large number of Kenyans who do not have bank accounts are now able to send or receive money regardless of where they are located inside the country. The majority of the administrators of small-scale businesses are aware of the utilisation of the adaptable instalment benefits. This is due to the fact that these benefits are straightforward to apply and do not demand any formal preparations prior to their utilisation (Beza, 2014).

Use of digital banking services is perceived to enhance profitability moderately (Muriuki, 2014). In a similar vein, research that was conducted in Malawi to analyse the multiplier effect of digital banking services revealed that when money is brought into a region from outside the region to be utilised to make purchases of goods and services that are manufactured in the region, it stimulates local sales, which ultimately results in greater performance for the local economy. There were some good benefits in terms of time saved and improved logistics, but there were also some indirect effects on liquidity, according to a study that was conducted on digital banking among micro enterprises in Tanzania. The study focused on business usage, such as paying suppliers or receiving payments from clients (Bangens, 2015).

Kenya acknowledges that the entrepreneur in the community is a significant contributor and mobilizer of resources to assist in the development of the economy, as well as a creator of employment opportunities for others and a component that helps to maintain social stability. Furthermore, according to Wickman (2016), the process of innovation is an essential component of the entrepreneurial process. The expansion of the economy is accomplished by the enhancement of productivity and the complete utilisation of all resources that are accessible for productive purposes. Because mobile phones are portable, they enable users to access their accounts and make payments anywhere they may be (Besley & Brigham, 2015).

2.3.3 Digital Savings

The ability of users to save money has been expanded as a result of the installation of electronic wallet features on mobile phones. These features enable users to save a portion of their earnings through the use of their mobile phones. The information provided by Nofie (2020) indicates that in certain circumstances, mobile phone users are required to set aside a particular percentage in order to gain access to online credit facilities. This, in turn, provides the common people with an incentive to develop a culture of saving, and as a result of its effectiveness and user-friendliness, a great number of people are able to effortlessly save money.

According to Narteh et al. (2017), the current environment, which is characterised by growing globalisation and expansion in the utilisation of information technology, is largely affected by the fact that digital banking drives life and economic activities. Consequently, this has resulted in major changes to the financial services that were previously available, which has resulted in the improvement of convenience and the manner in which transactions are carried out. Currently, a vast majority of individuals are utilising digital money for the purpose of conserving for the future and for the expansion of their businesses. Global data reveal that a growing number of countries are adopting digital technology, which has resulted in a transformation of the power of digital banking. This is because these countries are attempting to harness the power of digital platforms to manage their finances in order to finance their development agenda. (Edwards et al., 2016).

The degree of technological transition that is currently being experienced on a worldwide scale has resulted in the creation of new techniques for the safekeeping of resources. According to Weil et al. (2012), this has resulted in an increase in the overall level of productivity and competitions inside the organisation. Moreover, digital banking has been associated with the capacity to interlink economies, which results in an increase in the efficiency with which services are provided. Previously conservative systems have been drastically altered as a result of the introduction of digital money, as has been seen.

2.4 Theoretical Framework

Uma and Sekeran (2010) described a theoretical framework as a conceptual model that theorises or makes logical sense of the associations among the many factors that are highlighted as being essential to the subject that is being examined. By drawing attention to the various points of view that are associated with the review, the theories are able to flow in a logical manner from the documentation of previous studies in the area of contention.

2.4.1 Theory of Financial Innovations

Silber (1983) is the one who first introduced the theory of financial innovations. This theory is based on the assumption that the primary reason for financial inclusion is the expansion of foundations that are tied to money (Li & Zeng, 2010). According to Błach (2011), the theory reveals that the fundamental concepts that are behind the innovations are the defects that are associated with the business sector that deals with money. These defects mostly consist of deviating data, office expenses, and exchange costs. According to the theory, innovations in the financial sector can be very new solutions or simply traditional methods in which the most recent component of development has been offered, thereby increasing the firm's liquidity and increasing the number of new applicants due to their qualifications as a result of the situation (Ionescu, 2012).

Financial innovation is a crucial motivating element of the financial system, based to the theory, which leads to improved economic competence and higher economic advantage obtained from new and frequent changes (Sekhar, 2013). . In the realm of finance, innovations are defined as the process of coming up with new methods of production, technological solutions, and the creation of improved return rates, all of which contribute to the overall improvement of the economy of the country. The theory proposes that innovativeness enhances the competitive edge of a corporation and generates more earnings for investors. This is an essential component of the idea. Invention is a tool that may be utilized to solve problems, manage them, and transfer whatever that is an additional burden. Growth of financial institutions is facilitated by the implementation of innovations, which result in enhanced allocation and efficiency, as well as a reduction in expenditures of financial and administrative operations (Sekhar, 2013).

Financial innovations improve the liquidity of financial markets, ensure that resources are allocated to areas that are insufficient, and improve accessibility to emerging potential clients, all of which contribute to a deeper level of financial inclusion. According to Li and Zeng (2010), the theory of financial innovations postulates that certain constraints, such as external handicaps, are beneficial to companies in their pursuit of their purpose, which is to maximize revenues. Therefore, in order to increase their revenues, commercial banks come up with creative strategies to reach a greater number of individuals. There is a gap in financial instruments that exists in these nations, and the growing creative financial inclusion models using mobile and other digital financial services are helping to close that gap. This is especially true in many African countries (Omwansa & Waema, 2014).

This theory is the dominant theory and is relevant to the study as it explains the importance of technological innovations in the digital platforms and shows how their integration into the banking systems can improve access to services by customers of commercial banks. The financial system is driven by a vital motivational force known as financial innovation, which ultimately results in improved economic competence and a strengthened economic advantage for micro, and small, enterprises (MSEs).

2.4.2 Technology Acceptance Theory

Davis (1986) was the first person to propose this idea in an effort to elaborate on the attitudes that lie behind the desire to make use of technological know-how (Monyoncho, 2015). Technology Acceptance Theory (TAM) is concerned with perceptions rather than systems or actual usage. It posits that when new technical advancements are presented to customers, either the perceived ease of use (PEOU) or the perceived usefulness (PU) of the technology influences their selection. The amount of confidence that individuals have in a system is referred to as the Perceived Ease of Use (PEOU), and if users believe that a new technology will be useful to them in the short run as well as in the long run, then they will be encouraged to utilize the system. Furthermore, according to Mojtahed, Nunes, and Peng (2011), the perceived usefulness of a product is quantified by the degree to which an individual believes that a system improves performance both in the short term and over the long term. The TAM theory asserts that the genuine utilization of a system is determined by the behavioral intention of each user to utilize the system, and that this intention is inspired by an individual's perception of the system by that individual. According to Lim and Ting (2012), the theory also argues that the way people feel about new technology is directly related to the utility of the system as well as the ease with which it implements the functionality. Mojtahed, Nunes, and Peng (2011) state that the TAM theory takes into consideration the fact that the consumer's intents, which establish the customer's perspective towards the system, are a significant factor in determining the adoption of technology and functionality. The theory also provides support for the idea that the recognitions or suspicions regarding the advancement play a significant role in the improvement of states of mind, which ultimately leads to the behavior of system usage (Lim & Ting, 2012).

Additionally, the TAM theory investigates the behavior of humans in relation to certain systems. The TAM theory provides in-depth information, elucidates, and illustrates the reasons why customers accept or reject a particular data framework or technological innovation. In light of the purpose of determining the likelihood that individuals and organizations will be exposed to a particular invention, TAM theory is significant not only as a predictive technique but also as a valuable tool. For the purpose of explaining digital financial services, the TAM theory was utilized. This theory was then employed to clarify the existence of variances in consumer behaviors, particularly with regard to the utilization of digital financial services that are related (Lim & Ting, 2012).

2.4.3 Diffusion of Innovation Theory

This theory was initially proposed by Everett Rogers in the year 1995. A mechanism that conveys an innovation through specific channels among the people that make up a social system is referred to as a "diffusion," and it can be characterized as such. According to Rogers (2003), the acceptance of new financial innovations typically begins with a handful of innovators. In comparison to specific technologies, Rogers (2003) claimed that changes that provide more relative worth, tradability, compatibility, observability, and simplicity are more likely to be successfully adopted. For this reason, it is necessary to take into consideration all aspects of adopting new technology, which helps to accelerate the spread of new innovations. Adopting new technology is a challenging endeavor, particularly when it appears to offer various benefits.

According to the theory, there are five crucial components that have a significant influence on the rate of adoption. Observability, complexity, relative advantage, triability, and compatibility are some of the characteristics that are involved. The cost of adopting new innovations, according to Rogers (2003), is dependent on how a commercial enterprise evaluates the observability, complexity, relative advantage, triability, and compatibility of the new technology. The idea is relevant to the assessment because it shows that if a company in Kenya recognizes the benefits of digital banking, they would implement these innovations while taking into consideration a variety of factors, such as the availability of the instruments that are required. Companies that access the internet, have access to innovative resources, and keep records of them are able to integrate such innovations more quickly than businesses that do not have access to the internet.

2.5 Empirical Review

This section provides a review of the empirical studies that have been conducted on the relationships between the various components of digital banking and the financial performance of small and micro enterprises. Moreover, this part offers a summary of empirical investigations, highlighting the limitations that have been identified in those studies.

2.5.1 Digital Payments and Financial Performance of Micro and Small Enterprises

Without the emergence of a flexible and appropriate platform for competition, economies are unable to thrive in both the domestic and international markets. This is especially true in the realm of commerce and trade, particularly through the use of electronic business and commerce. It is essential that micro, and small, enterprises (MSEs) in developing nations transition from paper-based payment systems to digital payment systems. This will enable them to compete with multinational corporations both within and beyond the borders of their own countries (Chaffey, Hemphill, & Edmundson, Bird, 2019).

Similarly, Higgins et al. (2014) carried out a study with the purpose of determining the mobile money usage trends of Kenyan micro,and small, enterprises (MSEs). By means of a questionnaire, they were able to collect information from 865 owners of MSEs. Based on the findings of their research, it was determined that 99.5% of the MSEs utilized mobile money. In addition, the findings of the study demonstrated that the utilization of mobile money made it possible for micro, and small, enterprises (MSEs) to enhance their performance.

Donner and Escobari (2013) analysed the use of mobile phones by micro, and small, enterprises (MSEs) in developing nations. For the purpose of gathering data from fourteen research studies that had explored the use of mobile devices by MSEs, they utilized questionnaires. Mobile phones, according to their results, have assisted micro, and small, enterprises (MSEs) in becoming more productive and in raising their sales, which has led to an improvement in their financial performance.

The purpose of the research that Huang (2012) carried out was to determine the effect that mobile phones have on the performance of MSE in Auckland, New Zealand. Primary data was collected by him through the use of a questionnaire. His study found that the majority of micro, small, and medium-sized enterprises (MSEs) in Auckland were employing mobile technology in order to carry out their business activities. Furthermore, the findings of the study suggested that the utilization of mobile devices has enabled micro,and small, enterprises (MSEs) to boost their annual turnover as a result of additional opportunities for business networking.

Additionally, Bangens and Soderberg (2011) evaluated the function of mobile banking and its ability to deliver fundamental banking services to the great majority of people living in Sub-Saharan Africa. In order to compile the information required for the study, both primary and secondary sources were utilized. The outcomes of their investigation indicate that mobile banking has made it easier to conduct financial operations and send money to other people. Furthermore, the findings of their research suggested that mobile banking has improved the functionalities and competitiveness of micro, and small, enterprises (MSEs).

A study conducted by Nyaga (2017) on the impact of mobile money services on the performance of micro, and small, enterprises (MSEs) in Kenya discovered that mobile money services had significant effects on the performance of MSEs in Kenya. Swift remittance services had a significant and beneficial impact on the performance of micro, and small, enterprises (MSEs) in Kenya, according to the findings of a study conducted by Scott, Reenen, and Zachariadis (2017) looking into the effects of the implementation of 'Swift' on the performance of banks.

Wambari (2012) conducted a series of case studies in Kenya with the purpose of determining the impact that mobile banking has had in developing countries. For the purpose of gathering information from a sample of twenty MSEs, he was using a questionnaire that was semi-structured. Mobile banking was shown to have a beneficial effect on the financial transactions of micro, and small, enterprises (MSEs), according to the findings of his research. In addition, the findings of the research suggested that the implementation of mobile banking had made it possible for micro, , and small enterprises (MSEs) to boost their sales, which ultimately resulted in enhanced financial performance.

Chogi (2010) conducted a study to explore the influence that mobile phone technology has on micro, and small, enterprises (MSEs) in Nairobi. For the purpose of the study, a self-structured questionnaire was utilized to collect the necessary data. The majority of micro, and small, enterprises (MSEs) believed that mobile phones had a beneficial impact on their revenues, as indicated by the findings of the study. Furthermore, the findings of the study revealed that the majority of micro, and small, enterprises (MSEs) believed that mobile banking empowered them to decrease their cost of operation.

2.5.2 Digital Credits and Financial Performance of Micro and Small Enterprises

According to Bricks and Ennew (2007), financial institutions ought to develop and rely on electronic technology that would enable them to deliver services in an effective manner at a cost that is affordable. The use of modern technology, such as digital credit, reduces the administrative expenses incurred by lenders through the use of automated processes and remote appraisal. This, in turn, makes it possible for financial institutions to provide credit to borrowers with smaller amounts of money. The pricing of the loans is directly influenced by the reduction in the costs associated with providing credit.

In the long run, the debt cycle cannot be maintained, and it will eventually result in a significant probability of default. During their research on the impact of digital credit on the financial performance of micro, and small, enterprises (MSEs) in Kenya, Amsi et al. (2017) discovered that the loan amount that was available to a company had a substantial impact on the performance of the business's companies. The findings of the study indicated that when businesses are provided with an adequate quantity of credit, they are able to fulfill their business requirements, which ultimately results in the firms being able to maintain their financial stability. The research, which was conducted in five different markets in Nairobi with a total sample size of 210 micro, and small, enterprises (MSEs), is in agreement with an earlier study conducted by Odongo (2014), who also emphasized the significance of the loan amount in terms of its contribution to the performance of small businesses. Despite the fact that a number of authors have advocated for sufficient digital financing to improve the performance of the business, an excessive amount of funding can also have a negative impact on the enterprises (Amisi., 2017).

According to the findings of a study conducted by Odongo (2014) on the issue of digital lending conditions and the financial performance of small businesses in Uganda, it was discovered that the cost of credit contributed more favorably to the performance of small businesses than the other financial terms. Based on the findings of the study, it was discovered that when traders evaluate the availability of finance, the cost of money is given slightly less importance. In addition, the researcher emphasized that the smallest enterprises are concerned about the availability of credit and are willing to pay high costs because credit is the only form of capital that is readily available. Businesses are able to expand thanks to the availability of financial resources, which in turn leads to an increase in both assets and profits.

The decision to borrow money is not influenced by the cost of digital credits; instead, the funds acquired were utilized to expand the company and increase revenue. Gichuki (2014) supported these results, stating that as credit costs are not a primary factor in business borrowing decisions, they have no discernible impact on MSE performance. Nonetheless, he pointed out many MSEs were unable to obtain credit due to the high costs of repayment and suggested that interest rates be lowered to encourage more borrowing.

According to Nyumba (2015), who recommended that the cost of credit (interest) have a substantial negative effect on the performance of small enterprises, failing to examine the cost of digital credit could have a detrimental effect on the business. Nyumba (2015) discovered that the cost of credit, and more especially the interest rate, greatly raises operating costs in his research on the relationship between loan interest rates and the performance of micro and small businesses in Kenya. Eventually, this has an impact on the company's revenue and cash flows. Although the transaction, opportunity, and negotiating costs were not examined in this study, it was nevertheless able to demonstrate the impact that high interest rates have on business success.

Abaidoo (2015) asserts that having more digital credits than the company needs might result in financial mismanagement or diversions, both of which have a detrimental effect on the ability to repay. The likelihood of financial diversions is also increased by small or inadequate credit quantities compared to business requirements. According to Wamalwa et al. (2019), borrowers' capacity to make business investments is significantly hampered by lower credit limits because these ventures demand substantial sums of money. Decreased investment may result in poor growth and cash flow difficulties, which would ultimately impede firm expansion. When there are not enough finances available to buy a desired asset, money is likely to be diverted. Such monies are easily misappropriated to pay for demands that have nothing to do with the company.

2.5.3 Digital Savings and Financial Performance of Micro and Small Enterprises

In their study, Suri & Jack (2016) found that digital money improved the financial resilience and savings practices of female-headed families. The vast majority of the women stated that they used their savings to switch from agriculture to business. These results suggest that women's saving habits may benefit from the use of digital currency. According to Burkina Faso study findings, using mobile money improved the likelihood that low-income, rural, low-educated, female, and irregular earners would save money for emergencies. The study did not discover any statistically significant association between the chance of saving for a predicted future occurrence and the use of digital money. Descriptive data was available regarding the rise in savings by female-owned small enterprises using digital currency.

The study conducted by Odia (2016) utilized the Technology Acceptance Model (TAM) to investigate the elements that impact a user's inclination to utilize digital money savings in Nigeria, drawing insights from Kenya. The study utilized a questionnaire survey and semi-structured interviews to gather data. The findings revealed that factors such as convenience, security/privacy, trust, perceived ease of use, and perceived usefulness were significant predictors of the intention to use digital money savings in Nigeria. Among these factors, convenience emerged as the most influential. A research investigation was conducted to examine the factors that impacted the acceptance and utilization of digital money savings among consumers in Ghana. The data was gathered through a self-administered questionnaire. The results revealed that the perceived ease of use in savings and perceived usefulness were identified as the primary factors influencing the intention to use digital money transfer in Ghana. Behavioral intention was highly influenced by perceived trust, trialability, and perceived risk (Tobbin, 2015).

Sibiu (2015) conducted a study on the utilization of digital financial services for saving money and the promotion of micro and small enterprises (MSEs) in Kisumu city, Kenya. The research indicated that mobile money saving has a substantial impact on the MSE business. Therefore, the review successfully achieved its objectives and obtained a comprehensive understanding derived from the utilization of mobile money services by MSE's.

Regarding the conceptual framework, the fees associated with digital money transactions and the ease of accessing financial services have an impact on the progress of micro and small enterprises (MSEs).

Ngaruiya, Bossier, and Kama (2014) examined the effects of utilizing digital currency for savings on the performance and profitability of micro and small enterprises (MSEs) located inside the central business district (CBD) of Nakuru. The purpose of the review was to determine the impact of digital money savings on the financial performance of Micro and Small Enterprises (MSEs) in Nakuru Central Business District (CBD). The study design utilized was of a descriptive type. From a total of 640 firms, 120 were chosen using the purposive sampling method. The data collection method employed was a survey approach. The research findings indicated that the use of digital currency had a significant impact on sales revenue.

In his study on the impact of digital savings on the growth and expansion of micro-enterprises in Kenya, Mbogo (2010) utilized the Technology Acceptance Model (TAM) hypothesis. The TAM model was extended to incorporate other factors that can predict success and growth in small businesses. The review revealed that the endorsement of digital money savings innovation and its associated factors, such as convenience, cost, accessibility, and security, were found to be connected to both observed utility and real utility for MSEs, leading to an enhancement in their success.

A study by Bangens and Soderberg (2015) on the job of versatile keeping money and its capability to give essential managing an account administration to most by far of individuals in Sub-Saharan Africa found that portable saving money has encouraged budgetary exchanges and settlement of assets. The examination demonstrated that versatile saving money has upgraded the activities and aggressiveness of miniaturized scale and private companies. A cross sectional study on the impact of digital phone technologies on Micro and small businesses in Nairobi revealed that most micro and small business operators perceived digital banking services as a game changer on their revenue management (Chogi, 2014). Additionally, the study results showed that majority of MSE's agreed that digital banking had enabled them to reduce their operating costs due to enhanced cash management.

A study by Huang (2014) on the impact of digital banking on small and micro business performance in Auckland, New Zealand found that most micro businesses in Auckland were using digital technology to conduct their business activities. The consequences of the examination demonstrated that the utilization of versatile saving money had empowered smaller scale organizations to build their yearly turnover because of extra business organizing openings and clear monetary administration (Huang, 2014).

2.6 Research Gap

The banking sector has had significant progress and expansion in recent years, becoming a leading force for social and economic development in various countries, including Kenya. While a few small or micro enterprises have included digital banking into their operations, there is limited understanding of the influence of digital banking on the financial performance of these enterprises.

Jenny & Mite (2010) argue that while recent studies suggesting that access to mobile banking has a favorable impact on business performance, there is not enough empirical evidence to support this claim specifically for micro and small enterprises (MSEs). Insufficient investigation has been carried out on the degree to which digital banking practices impact the financial performance of Micro and Small Enterprises (MSEs) in Kenya. This research aims to address this gap. The present study aims to assess the how of digital banking affect the financial performance of micro and small firms in Nairobi County, Kenya, in order to address the existing inequality in evaluation.

2.7 Conceptual Framework

A conceptual framework is a type of analytical tool that can be applied in a variety of contexts and variants. It is utilized for the purpose of organizing ideas and making differences amongst concepts. The phrase "independent variables" refers to variables that are manipulated by a researcher in order to understand the impact that they have on the variable that is being studied (the dependent variable). dependent variable is a variable that provide an indication of the overall influence that is a result of the influence of the independent variable. (Shields & Rangarjan, 2013). This is illustrated in figure 2.1 below showing the two types of variables.

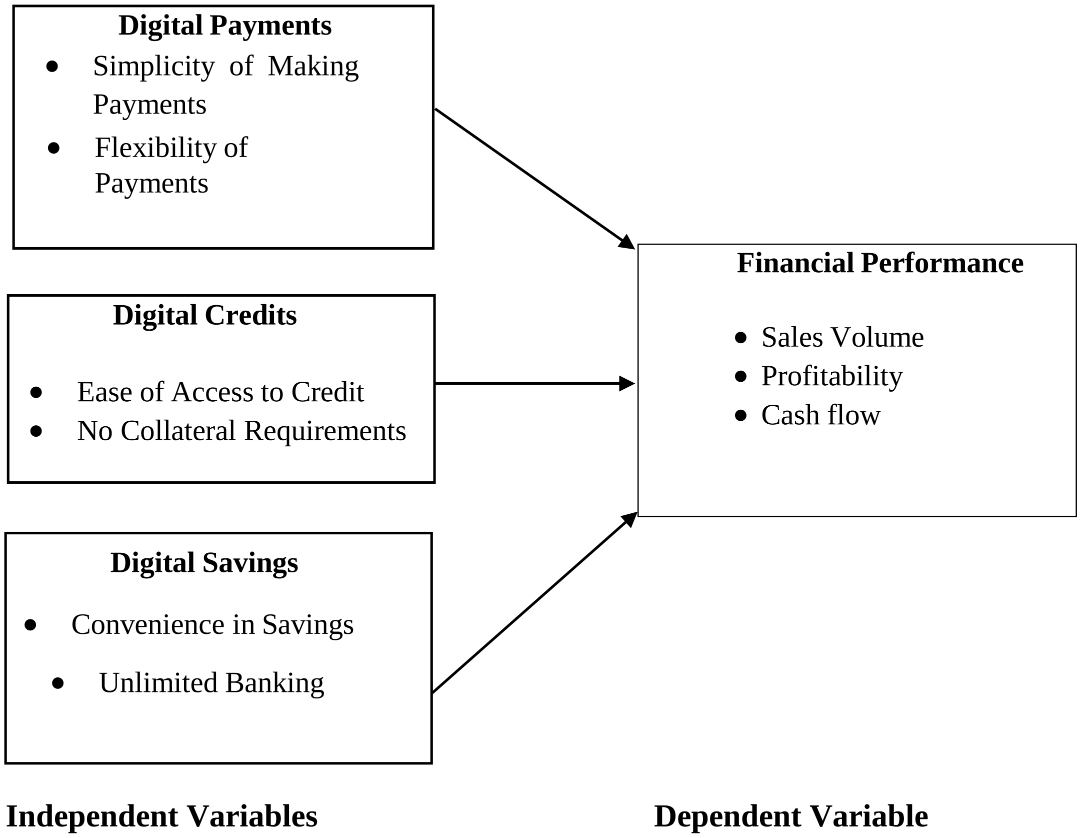

Figure 2.1: Conceptual Framework

Source: Researcher, 2023

The above conceptual framework measures the interaction between digital banking and financial performance of micro and small enterprises in Nairobi County, Kenya. Digital payments, digital credits, and digital savings measure digital banking. Financial performance is measured by sales volume.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

A description of the research methodology is presented in this chapter, which comprises of the study design, population, techniques of sampling, data collection, analysis and presentation and the considerations for ethics.

3.2 Research Design

This study employed explanatory research design. The explanatory research design is implemented to elucidate the characteristics of a demography or event that is being examined. Creswell (2013) posits that the research generates a profile of a cluster of individuals or an occurrence by acquiring inclusive and probable precise data. Explanatory research design is particularly important when the researcher employs a structured questionnaire and interview agenda to collect firsthand data It is possible to investigate the influence of digital banking on the financial performance of micro, small, and medium-sized enterprises (MSEs) in Nairobi County using this structure.

3.3 Target Population

Cooper and Schilndler (2012) defined population as all things, events, or individuals of interest that would be researched and used to select study participants or samples. The population consists of retail traders/managers in small and micro enterprises, according to a Nairobi County survey. According to Nairobi County information, there are 10,079 registered micro and small enterprises in Nairobi County as per the county Ministry of Trade (2023). The population of 10,079 MSEs in Nairobi county in all the sub counties and was therefore be the population of this study as presented in table 3.1 below;

Table 3.1: Target Population

Sub County	Number of MSE's
Ruaraka Sub County	29
Embakasi South Sub County	151
Westlands Sub County	495
Dagoretti North Sub County	331
Kibra Sub County	1308
Roysambu Sub County	200
Kasarani Sub County	194
Embakasi East Sub County	539
Makadara Sub County	144
Kamukunji Sub County	1806
Starehe Sub County	2265
Mathare Sub County	436
Dagoretti South Sub County	518
Langata Sub County	99
Embakasi North Sub County	454
Embakasi West Sub County	715
Embakasi Central Sub County	395
Total	**10,079**

Source: State Department for MSME Development, 2023

3.4 Sample and Sampling Technique

Saunders et al. (2014) classified sampling techniques into two categories: non-probability and probability sampling strategies. with non-probability sampling, the selection of study participants is not based on a predetermined probability. However, with probability sampling, every subject in the population has an equal opportunity to be chosen for participation in the research.

A sample refers to a subset or segment of the population that is being studied. The objective of sampling is to acquire knowledge about specific aspects or attributes of the entire population by examining the characteristics of a representative sample (Zikmund et.al, 2010). This study focused on Nairobi County for purposes of data collection and sampling. The sample was determined using the Fishers et al (2007) formula, which is used in situations where the population is more than 10,000, and is presented as below;

n=Z2 pq/d2

Where n= sample

Z= standard normal deviation at 95% of 1.96

p=Business owners (0.5 of population)

q= 1.0-p

d=level of significance (0.05)

n=1.962 (0.5) (1.0-0.5)/0.052 n=0.9604/0.0025 n=384

The objective of the technique was to optimize survey precision, while keeping the pattern size constant. The optimal sample size for each stratum, according to Neyman's (1934) allocation, is shown in the table below: The stratified sampling formula I = n (N/P) was employed to determine the required sample size from each stratum. The sample size was determined using the formula i=n(N/P), where i is the sample size, n is the desired level of confidence, N is the population size, and P is the estimated proportion of the population. Where i=Number of respondents in the stratum to be sampled

n=sample size

N=population of the specific stratum

P=population

Table 3. 2: Sample Distribution

Sub County	Number of MSE's
Ruaraka Sub County	1
Embakasi South Sub County	5
Westlands Sub County	19
Dagoretti North Sub County	13
Kibra Sub County	50
Roysambu Sub County	8
Kasarani Sub County	7
Embakasi East Sub County	21
Makadara Sub County	5
Kamukunji Sub County	69
Starehe Sub County	86
Mathare Sub County	17
Dagoretti South Sub County	20
Langata Sub County	4
Embakasi North Sub County	17
Embakasi West Sub County	27
Embakasi Central Sub County	15
Total	**384**

3.5 Data Collection Instrument

Kumar (2012) defines data collection instruments as the instruments that are employed to gather information in research or the methodologies that are employed to collect research data. The selection of methods is contingent upon the nature of the problem and the supply of time and resources (Cooper & Schindler, 2013). Data was collected through the use of a questionnaire in this study. A questionnaire is a data collection instrument that has been tailored by the researcher for conveying the intended message to the respondents and to obtain the desired response in respect to empirical data provided by the respondents with the objective to accomplish the research objectives (Crowther & Lancaster, 2012). It is a method for obtaining the emotions, beliefs, experiences, perceptions, or attitudes of a sample of individuals (Cooper & Schindler, 2013).

The primary data used in this study was obtained through the use of a questionnaire. A researcher can achieve a broad geographic coverage by utilizing questionnaires, which can encompass a large number of individuals. They are relatively inexpensive, and no prior arrangements are required prior to posting. They prevent respondents from feeling embarrassed by enabling them to contemplate their responses, particularly in cases where there are pre-coded options. They also permit the potential anonymity of the respondent and are free of interviewer bias when implemented correctly.

3.5.1 Pilot Test

To enhance the reliability of the instruments, the researcher initially conducted a pilot study to pre-test the questionnaire. The findings from the pilot study provided the researcher with valuable insights on whether modifications to the questionnaire were necessary to improve its validity. The findings derived from the questions were examined again with the participants in the preliminary investigation. Piloting is crucial as it enables the researcher to pinpoint any misunderstandings, ambiguities, or inadequate items. Every participant was provided with a questionnaire and instructed to reply to all of the inquiries.

The researcher conducted observations on the manner in which the respondents reacted to the provided questions. The responders in the pilot test shared the same characteristics as the research's sample, but they were excluded from the final study. The researcher conducted a pilot test of the questionnaire with 38 traders from small and micro enterprises in Kiambu County. These traders were selected based on their similar company characteristics. The results of the pilot test were excluded from the final study.

3.5.2 Validity

Validity, as defined by Picardi & Masick (2013), refers to the precision as well as accuracy of inferences drawn from research findings. Furthermore, validity refers to the extent to which the findings derived from the analysis of the data accurately reflect the phenomenon being investigated. Reliability pertains to the stability and consistent nature of scores over time or across different the assessors whereas validity concerns the degree to which a tool accurately assesses what it is designed to evaluate or the accuracy of research findings.

3.5.3 Reliability

Reliability refers to the extent whereby an instrument for study produces consistent outcomes or data when used multiple times (Crowther & Lancaster, 2012). The study instrument's reliability coefficient was evaluated using Cronbach's alpha (α). The Cronbach alpha values ranged from 0.863 to 0.839, indicating that the construct was deemed satisfactory. The recommended reliability cut-off point of 0.7 was adopted. Cronbach alpha is the predominant measure of internal consistency.

3.6 Data collection Procedure

The researchers utilized a Likert scale to administer structured questions, which effectively assessed participants' perception, attitude values, and behavior (Upagade & Shende, 2012). To mitigate the potential for a poor response level, the researcher sought the support of two competent research assistants to help with the distribution of the questionnaire. The research assistants were taught sufficiently to comprehend the questionnaire prior to initiating the data gathering process. Additionally, a formal letter was acquired from the School of Business and Economics at the University. The letter was affixed to the questionnaires, and given the study's significance to business organizations and policy leaders, a solicitation was made to possible respondents to partake in the study. Upon receiving the research tools, the researcher proceeded to encode and test the results to ensure their reliability and validity.

3.7 Measurement of Variables

The study focuses on financial performance as the dependent variable, while digital payments, digital credits, and digital savings are included as the independent factors. This section presents a comprehensive explanation of the measurement and operationalization of each study variable.

Table 3.3: Operationalization of variables

Definition of Variable	Measurement of variable (s)
Digital payments	Simplicity and flexibility of payments
Digital credits	Ease of access, no collateral
Digital savings	Convenience, unlimited banking hours
Financial performance	Sales Volume, cash flow, profitability

3.8 Data Analysis and Presentation

Kothari (2008) observed that data analysis aims to scrutinize field data which was originally gathered for the purpose of interpretation and drawing conclusions. The field data was evaluated using descriptive statistics, which included measures of variability and central tendency to determine frequencies. A multiple linear regression analysis was conducted to establish the causal relationship between the research variables. The study made the assumption that there was a linear correlation connecting the dependent and independent variables, and that the data followed a normal distribution. The measures of skewness and kurtosis were employed to assess the presence of linearity. Collinearity diagnostics were employed to assess the presence of multicollinearity. The study also presumed that there was low connection among the variables that were independent and that the sum of error terms was zero.

3.9 Model Specification

The research regression model is depicted below.

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \acute{\varepsilon}}$$

Y = Financial Performance

X_1 = Digital Payments

X_2 = Digital Credits

X_3 = Digital Savings

$\acute{\varepsilon}$ = Error Term.

β = Regression Coefficients

β_0 = (Constant)

The regression analysis assessed the magnitude of each independent variable and was distinguished by the r^2 and modified r^2 values to communicate findings and recommendations. In the given model, Y is the dependent variable, β_0, β_1, β_2, and β_3 represent the regression coefficients, and ε represents the error term. The error term is considered to have a mean of zero and is expected to be zero. The X's represent the independent variables. The model was utilized with a confidence level of 95%. The equation resolved the statistical mode by utilizing SPSS to produce quantifiable data and reports for the investigation.

3.10 Diagnostic Tests

Prior to estimating a regression equation, it was crucial to verify that the assumptions of the classical linear regression model were not being violated. Attempting to estimate these equations when the assumptions of linear regression are violated carries the potential for getting parameter estimates that are biased, inefficient, and inconsistent (Verma & Abdel-Salam, 2019).

3.10.1 Test of Multi-Collinearity

Multi-collinearity arises when there is a strong correlation between variables that are independent and the dependent variable. Failure to consider perfect multi-collinearity leads to regression coefficients that cannot be determined and standard errors that are infinite. On the other hand, the presence of imperfect multi-collinearity leads to huge standard errors (Daoud, 2017). During the process of estimating, the issue at hand is not the mere existence of multi-collinearity, but rather the extent or seriousness of it. The presence of multicollinearity was assessed using the variance inflation factor (VIF), where a VIF value of 10 or more indicates the presence of multicollinearity. (Field, 2009).

3.10.2 Normality and Linearity Test

These tests were conducted to assess the symmetry of the variables' distribution, identify any outliers, and determine the presence of a linear relationship among the variables. A normality test was conducted to ascertain whether the dataset conformed well to a normal distribution (Paul & Zhang, 2010). Skewness and kurtosis were employed to assess the normalcy of the data and identify any discrepancies. Kurtosis is a measure of how flat or peaked a distribution is, whereas skewness is a measure of how asymmetrical and different from a normal distribution a distribution is. Data conforms to normalcy criteria when both skewness and kurtosis fall within the range of +2 and -2 (Kothari, 2004).

3.11 Ethical Considerations

The study adhered to research ethical protocols prior to, during, and after it was carried out. In order to conduct ethical research, it is imperative for the researcher to secure the required clearances prior to collecting data in studies that include human participants (Kumar, 2012). Prior to commencing the research, authorization was obtained from the appropriate governing bodies. In order to promote impartiality in the research, measures were taken to prevent biases and opinions from affecting the research, and to ensure that all stakeholders were treated fairly. More precisely, the subsequent ethical considerations were noted:

A document known as an informed consent form allows potential volunteers to comprehend their rights and benefits prior to engaging in research (Kumar, 2012). An introductory letter was appended to the questionnaire. Only individuals who read and consented to the informed consent were permitted to voluntarily and confidentially complete the questionnaire. Furthermore, prior to their involvement in the study, the researchers obtained the informed consent of the individuals being studied.

Participants in the study should not be forced to take part and should instead choose to participate voluntarily. They must be provided with information about the research aims, what is expected of them, and their consent must be obtained. (Saunder et al., 2014). The respondents in the sample were informed that each youth had an equal opportunity to participate in the investigation. If any participant experienced discomfort during the questionnaire, they had the choice to withdraw from the study.

Mugenda and Mugenda (2013) suggest that the privacy of study participants can be preserved by employing codes. These can be employed on studies to protect the anonymity of participants' responses. The participants were guaranteed confidentiality of the information they submitted.

Every person who chooses to take part in a study has the right to privacy as a matter of ethics (Kothari, 2009). The questionnaires were distributed in the respondents' workplace or in their preferred private locations. While administering the questionnaires, it was expected that there would be no external influence or interference.

Creswell (2009) argues that research should focus on gathering data from study participants while ensuring complete anonymity, including avoiding any disclosure of their identities or contact information. In order to maintain the confidentiality of the participants, their anonymity was guaranteed, and they were not obligated to reveal their identities. The researcher ensured that the findings were reported with precision, faithfully representing the observations and statements of the respondents, while maintaining their anonymity. The data collected was only utilized for the purposes of this study. Lastly, the obtained a letter of introduction from the school of business and economics before proceeding to the filed to collect data and also applied for Nacosti license.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.0 Introduction

This chapter presents the results obtained from the participants and establishes their connection with the study's goals. It encompasses both descriptive and inferential statistical analyses concerning the respondents and their relationship to the digital banking practices and financial performance of micro and small businesses in Nairobi County, Kenya.

4.1 Reliability Test

To identify and address any weaknesses in the data collection tool, a preliminary examination was conducted through a pilot study. This pilot test involved a sample of 38 respondents hailing from Kiambu County. To assess the reliability of the instrument, the Cronbach Alpha coefficient was employed, with a recommended reliability threshold of 0.7, as advocated by Ritter (2010). Any items that fell below this threshold were excluded.

The findings from the pilot test revealed that all the variables under scrutiny in the study achieved Cronbach alpha scores exceeding 0.7. Consequently, no items were deemed necessary to be omitted from the study. As a result, the data collection instrument was affirmed as dependable for gathering data within the context of the research. The results are presented in Table 4.1 below;

Table 4. 1: Cronbach Alpha

Variable	Number of Items	Cronbach Alpha
Digital Payments	38	0.963
Digital Credits	38	0.898
Digital Savings	38	0.874
Performance	38	0.925

4.2 Response Rate

Out of the initial sample size of 384 respondents, a total of 360 individuals actively engaged in the study by successfully completing the questionnaires as required, resulting in an impressive response rate of 94%. According to the research guidelines outlined by Mugenda and Mugenda (2013), a response rate exceeding 70% is considered highly favorable for conducting objective analyses. The fraction of non-responses can be attributed to the busy schedules of certain respondents, which posed challenges in their availability to complete and return the questionnaires as requested.

However, the remarkable high response rate was achieved through diligent efforts by the researcher, who consistently followed up with participants and reminded them of the importance of thoroughly filling out the questionnaires and adhering to the designated deadlines. Additionally, strict adherence to ethical principles was maintained throughout the fieldwork, ensuring that all respondents were adequately informed about the significance of their participation in the study and the importance of providing accurate information.

Table 4. 2: Response Rate

	Dispersed Questionnaires	**Returned Questionnaires**	**Not Returned**
Frequencies	384	360	24
Percentage (%)	100	94	6

4.3 Demographic Characteristics

Demographic characteristics refer to the quantifiable attributes and traits of a population or a group of individuals used for statistical and analytical purposes to describe and categorize people based on various factors. This study evaluated the respondents using gender, level of education, years of operation, number of employees and business category.

4.3.1 Gender

An examination of the gender distribution among respondents was conducted with the results revealing that 54.5% of the respondents were male, while 45.5% were female. This suggests a relatively even gender distribution among the respondents, indicating that the study did not encounter significant gender imbalance. These findings are presented graphically in Table 4.3 below.

Table 4. 3: Gender

Gender	Respondents	Percentage
Male	196	54.5
Female	164	45.5
Total	360	100

4.3.2 Level of Education

The study sought to evaluate the level of education for the respondents and findings presented in Table 4.4 below.

Table 4. 4: Level of Education

Level	Respondents	Percentage
Post Graduate	20	5.6
Degree	96	26.7
Diploma	152	42.2
Certificate	92	25.5
Total	360	100.0

The findings presented in above indicate that the largest proportion of the respondents comprising 42.2% were diploma holders followed by 26.7% with degrees, 25.5% were certificate holders and finally 5.6% of the respondents had post graduate qualifications.

These results confirmed that those who participated had formal education and were well equipped to understand and answer to the questions asked.

4.3.3 Number of Employees

The research sought to examine the number of employees in each micro and small enterprises and findings presented in Figure 4.1 below.

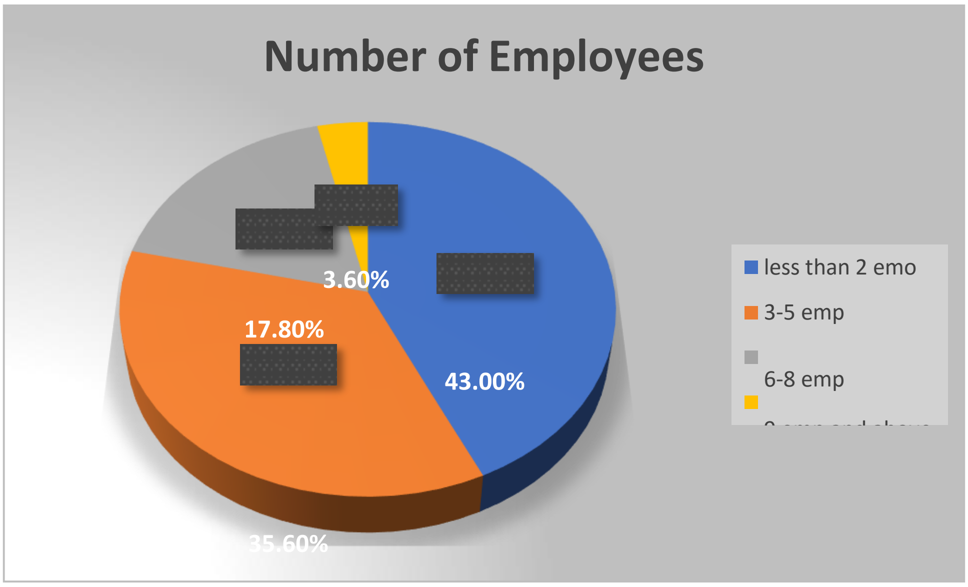

Figure 4. 1: Number of Employees

The results indicated that 43% of the respondents had less than two employees, 35.6% of the respondents had 3-5 employees, and a further 17.8% of the respondents had 6-8 employees. Only 3.6% of the respondents had 9 and above employees. These findings indicated that majority of the businesses had less than two employees, an indication that the business were small and hence ideal for this study.

4.3.4 Years of Operation

The study intended to investigate the years of operation of the businesses under the study and findings presented figure 4.2 below.

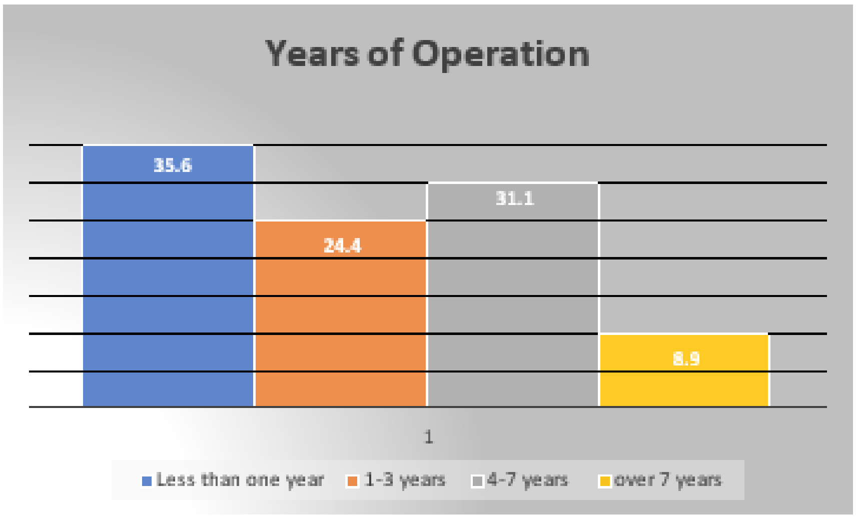

Figure 4.2: Years of Operation

Findings revealed that majority of the businesses with 35.6% were in operation for less than one year, 31.1% of the businesses were in operation for 4-7 years, 24.4% of the businesses were in operation for 1-3 years and only 8.9% of the businesses were in operation for more than 7 years. These results highpoint the various varying durations of various businesses, and indicate that the respondents who were the owners of these businesses had experience in running and managing their businesses and thus had enough knowledge to respond to the questions from an informed point of view.

4.3.5 Business Category

The study also sought to investigate the business category of the respondents and the results were presented in table 4.5 below.

Table 4. 5: Business Category

Category	Respondents	Percentage
Green Grocery	80	22.2
Wholesale/retail	60	16.7
Service Sector	92	25.5
Hawking	64	17.8
Retail	64	17.8
Total	**360**	**100.0**

Based on the findings of the study, majority of the respondents with 25.5% were in the service sector business followed by green grocery with 22.2%. Those in the hawking and retail business were 17.8% respectively, whereas those in the wholesale/retail business were 16.7%.

4.4 Descriptive Statistics Analysis

These statistical techniques are employed to simplify and illustrate the primary characteristics of data, aiding in the analysis and interpretation of the data. In this study, illustrative dimensions, including standard deviations and means, were used to quantify and portray these characteristics. The scale used to assess the elements ranged from 1 to 5, with 5 representing "strongly agreed" (SA), 4 representing "agreed" (A), 3 representing "neutral" (N), 2 representing "disagreed" (D), and 1 representing "strongly disagreed" (SD).

4.4.1 Descriptive Statistics for Digital Payments

It was requested of the respondents that they provide their opinions on the following statements concerning digital payments, and their reactions are presented below.

Table 4. 6: Descriptive statistics for Digital Payments

DIGITAL PAYMENTS	N	5	4	3	2	1	Mean	Std. Deviation
Using digital payment improves my performance in conducting purchase.	360	248 (68.9)	96 (26.7)	8 (2.2)	0 (0)	8 (2.2)	3.94	0.893
Using digital payment makes it easier to conduct my business transactions.	360	80 (22.2)	240 (66.7)	8 (2.2)	32 (8.9)	0 (0)	3.04	1.106
I find digital payment useful in conducting purchase from other retailers	360	172 (47.8)	112 (31.1)	9 (2.5)	63 (17.5)	4 (1.1)	4.32	0.928
I feel confident that digital bankingmakes it safe for me to use digital payment.	360	80 (22.2)	156 (43.4)	36 (10.0)	84 (23.3)	4 (1.1)	3.74	0.979
The legal and technological structures adequately protect me from payment problems on the digital banking	360	172 (47.8)	108 (30.0)	16 (4.4)	56 (15.6)	8 (2.2)	4.13	0.967
I can use digital payments from anywhere.	360	84 (23.3)	148 (41.2)	32 (8.9)	80 (22.2)	16 (4.4)	3.33	1.078
I can use digital payment at any time.	360	164 (45.6)	72 (20.0)	48 (13.3)	68 (18.9)	8 (2.2)	3.68	1.044

The study examined whether using digital payment improves my performance in conducting purchase. Findings indicated that majority of the respondents with 95.6% (M=3.94, SD=0.893) were in agreement with the statement, 2.2% were neutral to the statement, and 2.2% were not in agreement with the statement.

The study investigated whether using digital payment makes it easier for me to conduct my business transactions. Respondents were of the opinion that digital payment makes it easier for me to conduct my business transactions with 88.9% (M=3.04, SD=1.106) of the respondents agreeing to the statement. 2.2% of the respondents were neutral to the statement and a further 8.9% of the respondents were not in agreement with the statement.

The study investigated whether respondents find digital payment useful in conducting purchase from other retailers, and the results indicated that majority of the respondents with 78.9% (M=4.32, SD=0.928) were in agreement with the statement, 2.5% of the respondents were neutral, whereas 18.6% of the respondents were not in agreement with the statement.

The study further investigated whether respondents were confident that digital banking makes it safe for me to use digital payment. Findings indicated that majority of the respondents with 65.6% (M=3.74, SD=0.979) were in agreement with the statement and 10% were neutral to the statement. Only 24.4% of the respondents were not in agreement with the statement.

In relation to whether respondents feel assured that legal and technological structures adequately protect me from payment problems on the digital banking, majority of the respondents with 77.8% (M=4.13, SD=0.967) were in agreement with the statement, 4.4% of the respondents were neutral, whereas 17.8% of the respondents were not in agreement with the statement.

The study also examined whether respondents use digital banking from anywhere, and findings indicated that majority of respondents with 64.5% (M=3.33, SD=1.078) were in agreement with the statement, 8.9% were neutral, whereas 26.6% of the respondents were not in agreement with the statement.

Finally, as to whether the respondents could use digital payment at any time, findings indicated that majority of the respondents with 65.6% (M=3.68, SD=1.044) were in agreement with the statement, 13.3% were neutral to the statement, and a further 21.1% of the respondents were not in agreement with the statement.

These findings agreed with those of Muriuki, (2014) whose study concluded that the use of digital banking services is perceived to enhance profitability moderately in businesses. The findings were also in agreement with those of Higgins at al. (2014) who conducted a study to determine digital money usage patterns of Kenyan MSEs, and the results of their study showed that 99.5% of the MSEs used digital money, which enabled MSEs to improve their performance.

4.4.2 Descriptive statistics for Digital Credits

Respondents were requested to indicate their feedback on the following statements relating to digital credits and their results were presented in Table 4.7 below.

Table 4.7: Descriptive Statistics for Digital Credits

DIGITAL CREDIT	N	SA	A	N	D	SD	Mean	S.D
I use mobile to access loan from digital lenders	360	216 (60.0)	80 (22.2)	24 (6.7)	32 (8.9)	8 (2.2)	3.28	1.000
Digital credits is easy to access	360	64 (17.8)	232 (64.4)	4 (1.1)	36 (10.0)	24 (6.7)	3.70	1.100
There are clear lending terms of digital credits	360	52 (14.4)	80 (42.2)	12 (3.3)	176 (28.9)	40 (11.1)	3.33	1.260
The introduction of digital credit services has improved my business stock	360	80 (22.2)	188 (52.2)	16 (4.4)	40 (11.1)	36 (10.0)	3.63	1.160
Due to digital credit, am able to order for goods as per the customer request anytime	360	108 (30.0)	148 (41.2)	20 (5.6)	44 (12.2)	40 (11.1)	3.59	1.150

The study investigated whether respondents use mobile to access loan from digital lenders. Findings indicated that majority of the respondents with 82.2% (M=3.28, SD=1.00) were in agreement with the statement, 6.7% were neutral to the statement, and 11.1% of the respondents were not in agreement with the statement.

In addition, the study examined whether digital credits is easy to assess with findings indicating that majority of the respondents with 82.2% (M=3.70, SD=1.100) were in agreement with the statement, 1.1% of the respondents were neutral to the statement, and 16.7% of the respondents were not in agreement with the statement.

The study also investigated whether there were clear lending terms of digital credits, with findings indicating that majority of the respondents with 56.6% (M=3.33, SD=1.260) were in agreement with the statement, 3.3% of the respondents were neutral to the statement, whereas 40.0% of the respondents were not in agreement with the statement.

The study sought to examine whether the introduction of digital credit services has improved my business stock. Findings gathered from the respondents revealed that majority of the respondents with 74.4% (M=3.63, SD=1.160) were in agreement with the statement, 4.4% of the respondents were neutral to the statement and 21.1% of the respondents were not in agreement with the statement.

Finally, the study sought to investigate whether due to digital credit, respondents were able to order for goods as per the customer request anytime. Findings indicated that majority of the respondents with 71.2% (M=3.59, SD=1.150) were in agreement with the statement, 5.6% were neutral to the statement, and 23.3% were not in agreement with the statement.

These results were in agreement with those of Odongo (2014) whose study on digital lending terms and financial performance of small enterprises in Uganda, found out that cost of credit contributed positively to the performance of small businesses than the other lending terms. The findings are also in agreement with those of Amsi et al. (2017) whose study on the effect of digital credit on MSEs financial performance in Kenya found that loan amount available to a business positively and significantly affected the performance of the business's enterprises. The study demonstrated that when enterprises receive amount of credit that is enough, they meet their business needs, which eventually leads to financial sustainability of the businesses.

4.4.3 Descriptive Statistics for Digital Savings

Respondents were asked to provide feedback on various statements relating to digital savings and the results presented in Table 4.8 below.

Table 4. 8: Descriptive Statistics for Digital Savings

DIGITAL SAVINGS	N	SA	A	N	D	SD	Mean	SD
Am able to deposit saving to my account using mobile phone	360	200 (55.6)	116 (32.2)	8 (2.2)	24 (6.7)	12 (3.3)	4.16	0.910
I can save money in my mobile phone anytime anywhere	360	80 (22.2)	196 (54.4)	28 (7.8)	52 (14.4)	4 (1.1)	4.64	0.815
Am able to access to savings through digital money	360	160 (44.4)	108 (30.0)	32 (8.9)	56 (15.6)	4 (1.1)	4.48	0.717
By use of till number or my sales go direct to my account which increase my savings	360	88 (24.4)	180 (50.0)	32 (8.9)	52 (14.4)	8 (2.2)	4.48	0.717
Mshwari savings has increased my loan limit	360	144 (40.0)	112 (31.1)	40 (11.1)	60 (16.7)	4 (4.4)	4.40	0.698
I can easily access my savinganytime from using my mobile phone	360	104 (28.9)	124 (34.4)	32 (8.9)	80 (22.2)	20 (5.6)	4.37	0.696

The study investigated whether respondents were able to deposit savings to their accounts using digital phones. Findings indicated that majority of the respondents with

87.8% (M=4.16, SD=0.910) were in agreement with the statement, 2.2% were neutral to the statement, and 10.0% were not in agreement with the statement.

The study also investigated whether respondents could save money in their digital phones anytime anywhere. Findings indicated that majority of the respondents with 76.6% (M=4.64, SD=0.815) were in agreement with the statement, 7.8% were neutral to the statement, whereas 15.5% of the respondents were not in agreement with the statement.

The study sought to investigate whether respondents were able to access to savings through digital money. Majority of the respondents with 74.4% (M=4.48, SD=0.717) were in agreement with the statement, 8.9% of the respondents were neutral to the statement, whereas 16.7% of the respondents were not in agreement with the statement.

In addition, the study examined whether the use of Till number or my sales go direct to my account increased their savings. Respondents with 74.4% (M=4.48, SD=0.717) were in agreement with the statement, 8.9% of the respondents were neutral to the statement, whereas 16.6% of the respondents were not in agreement with the statement.

The study examined whether Mshwari savings has increased the respondents loan limit. Majority of the respondents with 71.1(M=4.40, SD=0.698) were in agreement with the statement, 11.1% of the respondents were neutral to the statement, and 21.1% of the respondents were not in agreement with the statement.

Lastly, the study sought to evaluate whether respondents could easily access their savings anytime using their digital phones. Findings indicated that majority of the respondents with 63.3% (M=4.37, SD=0.696) were in agreement with the statement, 8.9% were neutral to the statement, and a further 27.8% were not in agreement with the statement.

These findings above in relation to digital savings and performance indicate that digital money can increase the saving nature of respondents. They are in agreement with those of Suri & Jack (2016) who in their study found that digital money increased the savings behaviors and financial resilience behaviors of female-headed households where majority of the women reported using their savings to change their occupational choice from agriculture into business. The findings are also in agreement with those of Sibiu (2015) whose study focused on digital money saving and the amplification of MSEs in Kenya, 90a case study of Kisumu city. The review findings provided that digital money saving reported significant influence on the MSEs industry.

4.4.4 Descriptive Statistics for Financial Performance

Respondents were requested to express their opinion on the following statements relating to financial performance and their responses indicated in Table 4.9 below.

Table 4. 9: Descriptive Statistics for Financial Performance

PERFORMANCE OF MSE'S	N	SA	A	N	D	SD	Mean	SD
My organization makes a profit this year	360	145 (40.3)	122 (33.9)	23 (6.4)	47 (13.1)	23 (6.4)	4.31	0.932
Profit for this month is higher than last month	360	85 (23.6)	174 (48.2)	36 (10.0)	45 (12.5)	20 (5.7)	4.21	0.895
Profit for this year is higher than last year	360	85 (23.6)	206 (57.2)	12 (3.3)	36 (10.0)	21 (5.8)	4.56	0.951
This enterprise makes higher sales for this year	360	62 (17.2)	208 (57.8)	29 (8.1)	42 (11.7)	19 (5.3)	4.65	0.962
Sales for this month are higher than last month	360	54 (15.0)	206 (57.2)	38 (10.6)	34 (9.5)	28 (7.8)	3.52	1.070
Sales for this year are higher than last year	360	73 (20.2)	211 (58.6)	20 (5.6)	32 (8.9)	24 (6.7)	3.54	1.110
The enterprise makes higher cash flow for this year	360	91 (25.3)	196 (54.4)	13 (3.6)	38 (10.6)	22 (6.1)	3.28	1.040
This month, the actual cash income is higher than the budgeted cash income	360	112 (31.1)	96 (26.7)	31 (8.6)	87 (24.2)	34 (9.4)	3.03	1.140
This year, the actual cash income is higher than the budgeted cash income	360	88 (24.4)	143 (39.7)	27 (7.5)	64 (17.8)	38 (10.6)	3.63	1.050

The study sought to evaluate whether the organization makes a profit for this year and the findings indicated that majority of the respondents with 74.2% (M=4.31, SD=0.932) were in agreement with the statement, 6.4% of the respondents were neutral to the statement, and 19.5% of the respondents were not in agreement with the statement.

The respondents were of the view that the profit for the current month was higher than the previous month, supported by 71.8% (M=4.21, SD=0.895) of the respondents. However, 10% of the respondents were neutral to the statement, and a further 18.2% of the respondents were not in agreement with the statement.

The study investigated whether respondents' profits for this year were higher than the previous year. Findings indicated that majority of the respondents with 80.8% (M=4.56, SD=0.951) were in agreement with the statement, 3.3% were neutral to the statement, and 15.8% were not in agreement with the statement.

The study further investigated whether their enterprises makes higher sales for the year and findings indicated that majority of the respondents with 75.0% (M=4.65, SD=0.962) were in agreement with the statement, 8.0% were neutral to the statement, and 17.0% were not in agreement with the statement.

In an effort to establish whether sales for this month were higher than last month, respondents with 72.2% (M=3.52, SD=1.070) were in agreement with the statement, 10.6% were neutral to the statement, and 17.3% were not in agreement with the statement.

The study examined whether sales for this year were higher than last year. Findings from eh respondents indicated that majority with 78.8% (M=3.54, SD=1.110) were in agreement with the statement, 5.6% were neutral to the statement, whereas 15.6% of the respondents were not in agreement with the statement.

The study also examined whether the enterprise makes higher cash flow for this year. Findings indicated that majority with 79.7% (M=3.28, SD=1.040) were in agreement with the statement, 3.6% were neutral to the statement, and 16.7% of the respondents were not in agreement with the statement.

The study sought to investigate whether in the current month the actual cash income is higher than the budgeted cash income. Findings from the respondents indicated that majority with 57.8% (M=3.03, SD=1.140) were in agreement with the statement, 8.6% were neutral to th statement, and 33.6% were not in agreement with the statement.

The study also sought to investigate whether this year, the actual cash income is higher than the budgeted cash income. Findings indicated that majority of the respondents with 64.1% (M=3.63, SD=1.050) were in agreement with the statement, 7.5% were neutral to the statement, and the rest 28.4% were not in agreement with the statement.

These findings above relating to performance were in agreement with those of Govil, Lopez and Martin (2017) who carried out a study on digital finance's role and revealed that digital banking greatly enhances businesses' financial development. Concurring to the research, digital banking speeds up the stream of products and services as a result of creating a conducive climate for speculation and over all security. Onyango (2016) study on effect of selection and utilize of digital money innovation on the performance of SMEs found a positive relationship between digital many utilization and the performance of SMEs.

4.5 Diagnostic Tests

4.5.1 Multi-Collinearity Test

Collinearity statistics were obtained through the performance of multi-collinearity tests to determine the degree of correlation between variables. Multi-collinearity is a problem in regression analysis that occurs when there is a strong connection between two independent variables. Under these circumstances, the analytical approach is unable to differentiate between variables, which hinders the estimation of coefficients in multi-regression. Consequently, the equation becomes unsolvable (King, Keohane, and Verba, 2014).

A test was conducted to interchange the variables, and it was determined that the Variance Inflation Factor (VIF) was below 5, which is considered acceptable. Greenberg and Parks (2007) state that a Variance Inflation Factor (VIF) exceeding 10 indicates a problematic situation, while a VIF exceeding 2.5 should be a cause for concern. The output for the Collinearity Tests is displayed in Table 4.10.

Table 4. 10: Collinearity Tests

Model	**Collinearity Statistics**	
	Tolerance	**VIF**
Digital Payments	0.847	1.138
Digital Credits	0.752	1.363
Digital Savings	0.794	1.343
Average	0.797	1.281

4.5.2 Normality Test

In order to do linear regression, it is necessary for all variables to follow a multivariate normal distribution. If the residuals exhibit no skewness, it indicates that the assumption has been met. The study assessed normality by the utilisation of skewness and kurtosis, with the results displayed in Table 4.11.

Table 4. 11: Skewness and Kurtosis

Variable	**Skewness**	**Kurtosis**
Financial Performance	0.518	0.823
Digital Payments	1.105	0.795
Digital Credits	0.913	0.257
Digital Savings	0.634	0.458

The kurtosis and skewness coefficients for parameters in the study are presented in Table 4.11. The results indicate that the lowest value for skewness is 0.518, which corresponds to the financial performance variable. On the other hand, the highest value of skewness is 1.105, which is associated with the digital payments variable. The minimum value for kurtosis is 0.257, which corresponds to the variable "Digital credits," while the maximum value is 0.823, which corresponds to the variable "financial performance." This finding indicate that the data is normal considering all the skewness and kurtosis values are between +/-1.5. George and Mallery (2014) state that skewness and kurtosis values within the range of -2 to +2 are deemed appropriate for assessing the normality of a univariate distribution.

4.6 Inferential Analysis

The primary objective of inferential analysis is to establish correlations between variables in a study. Correlation analysis was utilised in this study to establish the relationships between the variables under investigation. The model summary was utilised to quantify the strength of these associations. Furthermore, analysis of variance was employed to determine if there were any statistically significant differences between the variables.

4.6.1 Correlation Analysis

The Pearson correlation test was employed to calculate the correlation. A coefficient can be utilised to measure the correlation between variables, with a number closer to 1 indicating a stronger link. A negative coefficient signifies a reverse relationship, whereas a positive coefficient implies that the variables move in a similar direction. The results of the correlation investigation are displayed in Table 4.12 below.

Table 4. 12: Correlation Analysis

		Financial Performance	Digital Payments	Digital Credits	Digital Savings
Financial Performance	Pearson Correlation	1			
	Sig. (2-tailed)	0.011			
Digital Payments	Pearson Correlation	0.435*	1		
	Sig. (2-tailed)	0.026			
Digital Credits	Pearson Correlation	0.385**	0.215	1	
	Sig. (2-tailed)	0.002	0.169		
Digital Savings	Pearson Correlation	0.396**	0.047	0.212	1
	Sig. (2-tailed)	0.022	0.214	0.192	

The data displayed in Table 4.12 above illustrate several significant connections. There is a strong and statistically significant correlation (r=0.435, p=0.026) between digital payments and financial performance. Furthermore, there exists a significant positive relationship between digital credits and financial performance, as evidenced by a correlation coefficient of 0.385 (p=0.002). Furthermore, there exists a significant and favourable link (r=0.396, p=0.022) between digital savings and financial performance.

4.6.2 Model Summary

The model summary offers details regarding the correlation coefficients (R), which reflect the nature of the relationship amongst the variables, and the coefficient of determination (R2), that measures the degree to which the independent variables may predict changes in the dependent variable. The table presented below, labelled as Table 4.13, provides a concise overview of the model used in the study.

Table 4. 13: Model Summary

Model Summary

Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimate
1	.784[a]	.615	.612	2.25266

The coefficient of correlation (R) connecting the independent variables (digital payments, digital credit, and digital savings) and the dependent variable (financial performance) is 0.784, which suggests that there is a strong positive association between the three variables. This suggests that as the usage of digital banking increases among micro and small enterprises, their financial performance tends to improve. The R Square value of 0.615 means that digital payments, digital credit, and digital savings can explain approximately 61.5% of the variation in financial performance. This indicates that these variables have a significant impact on the financial performance of micro and small enterprises. The Adjusted R Square value of 0.612 is very close to the R Square value, indicating that the inclusion of the three independent variables in the model is appropriate and does not result in overfitting.

4.6.3 ANOVA

ANOVA is a method of diagnosis used to determine if the means of two or more populations are identical. It clarifies the components of variance and determines the relevance of the study's findings. The study's ANOVA results are shown in Table 4.14 below.

Table 4. 14: ANOVA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2887.884	3	962.628	189.700	.000[b]
	Residual	1806.516	356	5.074		
	Total	4694.400	359			

The ANOVA findings demonstrate that the regression model has a statistically significant impact. The F value of 189.700, with a significance level of 0.000, indicates that the observed variation in the dependent variable (financial performance) is explained by the independent variables (digital payments, digital credit, and digital saving is significantly higher than the unexplained variation. The substantial F value suggests a robust correlation between the independent variables and the dependent variable. The model, in its entirety, has the ability to explain a significant portion of the fluctuations in financial performance. To summarise, the ANOVA results support the conclusions drawn from the regression analysis, indicating that digital payments, digital credit, and digital savings have significant effects on the financial performance of micro and small enterprises.

4.6.4 Regression Coefficients

The study utilised regression analysis to explain the underlying mathematical links between the predictor factors and the result variable. This analysis additionally evaluated the statistical significance of these associations by utilising beta coefficients and p-values. The regression findings from the analysis are shown in Table 4.15.

Table 4. 15: Regression Coefficients

Coefficients[a]

Model		**Unstandardized Coefficients** Beta (β)	Std. Error	**Standardized Coefficients** Beta (β)	**t**	**Sig.** (*p*)
1	(Constant)	0.200	1.258		0.159	0.874
	Digital Credits	0.266	0.026	0.388	10.121	0.003
	Digital Savings	0.488	0.037	0.532	13.318	0.007
	Digital Payments	0.682	0.051	0.625	13.318	0.000

All three independent variables have statistically significant coefficients, as indicated by the significance levels. This suggests that digital credits, digital savings, and digital Payments have a crucial role in predicting the financial performance of micro and small enterprises. The coefficient estimates provide information on the direction and magnitude of the correlation among every of the independent variables with the dependent variable (financial performance). The multiple regression equation was summarized as follows.

$$Y=0.200+0.682X_1+0.266X_2+0.488X_3$$

4.7 Hypothesis Testing

The first hypothesis was that there is no significant relationship between digital payments and financial performance of micro and small enterprises in Nairobi County, Kenya. According to the results of the study, digital payments had a positive and significant coefficient estimate (β) of 0.682 and significance (p) of $0.000<0.05$. This suggests that a one-unit increase in digital payments is associated with a 0.682 with a significance (p) of 0.000 increase in financial performance, holding all other variables constant. The hypothesis was therefore rejected since there was a positive relationship between digital payments and financial performance.

The second hypothesis was that there is no significant relationship between digital credits and financial performance of micro and small enterprises in Nairobi County, Kenya. According to the findings of the study, digital credits had a positive and significant coefficient estimate (β) of 0.266 and a significance (p) of $0.003<0.05$. This suggests that a one-unit increase in digital credits is associated with a 0.266 increase in financial performance, holding all other variables constant. The hypothesis was therefore rejected since there was a positive and significant relationship between digital credits and financial performance of micro and small enterprises in Nairobi County, Kenya.

The third hypothesis of the study was that there is no significant relationship between digital savings and financial performance of micro and small enterprises in Nairobi County, Kenya. Findings from the study indicated that digital savings had a positive and significant coefficient estimate (β) of 0.488 and a significance (p) of 0.007<0.05. This suggests that a one-unit increase in digital savings is associated with a 0.488 increase in financial performance, holding all other variables constant. The hypothesis was therefore rejected since digital credit had a positive and significant relationship with financial performance of micro and small enterprises in Nairobi County, Kenya

Digital payments had the largest beta coefficients, which meant that it had the most influence of the three variables in the study on financial performance of micro and small enterprises in Nairobi County, Kenya.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The research approach adopted by this study was explanatory research design, and utilized multiple regression analysis to examine and analyze the data. Financial performance of micro and small enterprises in Nairobi County was assessed by considering digital payments, digital credits and digital savings. The study findings indicated that these factors exerted a positive and significant influence on financial performance of micro and small enterprises in Nairobi County.

5.1.1 Digital Payments and Financial Performance

The study investigated how digital payments affected the financial performance of micro and small enterprises in Nairobi County, Kenya. The results presented a notable link between digital payments and financial performance. Aspects of digital payments such as use of digital payment platforms to make payments and purchases had an influence on the financial performance of micro and small enterprises in Nairobi County, Kenya.

5.1.2 Digital Credits and Financial Performance

The study also investigated how digital credits influenced the financial performance of micro and small enterprises in Nairobi County, Kenya. The results from the findings presented a significant link between digital credits and the financial performance of micro and small enterprises in Nairobi County by providing access to capital, efficiency, and financial inclusion to the micro and small enterprises in Nairobi County.

5.1.3 Digital Savings and Financial Performance

The study investigated how digital savings influenced the financial performance of micro and small enterprises in Nairobi County. Findings from the analysis revealed that digital savings had positive and significant effect on the financial performance of micro and small enterprises in Nairobi County, Kenya, since they had the ability to deposit savings directly into their accounts, access the money at any time and also increase the loan limits from their savings.

5.2 Conclusion

The study's findings established those digital payments had a favorable and substantial impact on the financial performance of small and micro enterprises in Nairobi County. Kenya. Digital payments are more convenient and can be made from any location, and had the legal and technological structures adequately protecting the users from payment problems making them the most preferred way of making financial payments by businesses. The results were consistent with the findings of Higgins et al. (2014), who conducted a study on the usage patterns of mobile money payments among Kenyan MSEs. Their research showed that 99.5% of the MSEs utilized mobile money, and that its use had a positive impact on the performance of these MSEs. The results were consistent with the findings of Donner and Escobari (2013), who conducted a study on the utilization of mobile phones by micro and small enterprises (MSEs) in developing nations. Their research demonstrated that mobile phones had a positive impact on MSEs, enhancing productivity, increasing sales, and ultimately boosting their financial performance.

The study also concludes that digital credits had appositive and significant influence on financial performance of micro and small enterprises in Nairobi County, Kenya. These digital credits provide businesses and individuals' access to credit or capital for their businesses that could otherwise be difficult to access, giving them an opportunity to provide resources for their businesses. These digital credits eliminate the need for collaterals required by the businesses to access loans in most financial institutions. The results of this study were consistent with those of Amsi et al. (2017), who also examined the impact of digital credit on the financial performance of small and micro enterprises (MSEs) in Kenya. Amsi et al. discovered that the loan amount accessible to a business had a substantial influence on the success of the firm's operations. The study revealed that when enterprises have a sufficient quantity of credit, they are able to fulfill their business requirements, hence resulting in the long-term financial viability of the businesses. The study was also in agreement with that of Odongo, (2014) whose study on the importance of the loan amount and digital lending terms in contributing to the performance in Uganda revealed that cost of credit contributed positively to the performance of small businesses than the other lending terms. The study revealed that traders assign less importance to the monetary cost when assessing the availability of financial resources. Access to money is crucial for the expansion of businesses, leading to an increase in assets and income.

The study determined that the utilization of digital savings has a favorable and noteworthy impact on the financial performance of micro and small firms in Nairobi County, Kenya. Though digital savings, MSE’s have an opportunity to set aside a portion of their income for saving, which can provide an additional source of income for the business when the need arises. The results were consistent with the findings of Suri & Jack (2016), who conducted a study on the influence of digital financial services on financial access. Their research revealed that the use of digital money led to an increase in savings and financial resilience among households. Notably, a significant number of women reported using their savings to transition from agricultural work to entrepreneurial pursuits. The findings suggest that digital currency can have a favorable impact on women's saving habits. The results were consistent with the findings of Sibiu (2015), who conducted a study on the impact of digital money saving on micro and small enterprises (MSEs) in Kenya, specifically in Kisumu city. Sibiu's study concluded that mobile money saving had a substantial influence on the MSEs industry in Kisumu City. Therefore, the review successfully achieved its objectives and obtained a comprehensive understanding derived from the utilization of mobile money services by MSE's.

5.3 Recommendations

5.3.1 Managerial recommendations

MSE owners and managers should be encouraged to adopt digital payment systems comprehensively. The study reveals that digital payments significantly enhance transactional efficiency and security, reducing the risks associated with cash handling and improving the accuracy of financial records. Managers should invest in training for themselves and their employees to maximize the use of mobile money platforms, online payment gateways, and other digital transaction tools. Additionally, partnering with digital payment service providers to offer incentives such as reduced transaction fees or cashback offers can further motivate the uptake and usage of these systems.

Secondly, the availability and accessibility of digital credit should be leveraged to support the growth and sustainability of MSEs. The findings indicate that digital credit solutions provide crucial capital that helps businesses manage cash flow, invest in inventory, and expand operations. Managers should explore various digital credit options, including mobile lending apps and online microfinance platforms, to identify those that offer favorable terms and conditions. Moreover, financial literacy programs focusing on the prudent use of digital credit can help mitigate the risks of overindebtedness and ensure that borrowed funds are utilized effectively for business development.

Promoting digital savings mechanisms is essential for enhancing the financial resilience of MSEs. The study underscores that digital savings accounts offer a convenient and secure way for businesses to save regularly, facilitating better financial planning and emergency preparedness. Managers should prioritize setting up digital savings accounts and encourage a culture of regular savings among their staff. Collaborating with financial institutions to create tailored digital savings products for MSEs can also provide additional benefits, such as higher interest rates or reward schemes for consistent savers.

For policymakers and financial service providers, the study suggests the need to create an enabling environment that supports the integration of digital banking services into the operations of MSEs. This involves developing regulatory frameworks that protect digital transactions and fostering partnerships between banks, fintech companies, and business associations to promote digital financial literacy and inclusion. Incentives such as tax breaks for businesses that adopt digital banking tools or grants for technology upgrades can further accelerate the digital transformation of the MSE sector.

5.3.2 Theoretical recommendations

The study on the effect of digital banking—encompassing digital payments, digital credit, and digital savings—on the financial performance of micro and small enterprises (MSEs) in Nairobi County, Kenya, provides valuable insights that align with and extend several established theories, including the Theory of Financial Innovation, the Technology Acceptance Theory (TAM), and the Diffusion of Innovation Theory (DOI).

Theoretical recommendations based on these findings can guide future research and practical applications in the domain of digital financial services.

From the perspective of the Theory of Financial Innovation, the study underscores the importance of continuous innovation in financial products and services to meet the evolving needs of MSEs. The positive impact of digital payments, digital credit, and digital savings on financial performance highlights the necessity for financial institutions to innovate and diversify their offerings. Researchers should explore how specific features of digital banking products can be tailored to enhance accessibility, affordability, and usability for MSEs. Further studies could investigate the long-term effects of these innovations on financial stability and growth, contributing to a deeper understanding of how financial innovation drives economic development at the microenterprise level.

In accordance with the Technology Acceptance Theory (TAM), the findings suggest that perceived ease of use and perceived usefulness significantly influence the adoption of digital banking services by MSEs. To build on this theory, future research should examine the specific factors that enhance these perceptions among MSE owners and managers. For instance, user-friendly interfaces, reliable customer support, and transparent terms of service could be critical in increasing the acceptance and sustained use of digital financial tools. Additionally, empirical studies should focus on the role of external variables such as socio-economic background, prior technology experience, and the influence of social networks in shaping attitudes towards digital banking adoption.

The Diffusion of Innovation Theory (DOI) provides a robust framework for understanding how digital banking services spread among MSEs. The study's findings indicate that the adoption process is influenced by factors such as relative advantage, compatibility, complexity, trialability, and observability. To advance this theory, it is recommended that future research delves into the specific attributes of digital banking innovations that resonate most with MSEs in Nairobi County and similar contexts. Investigating the role of change agents, such as financial advisors and peer business networks, can provide insights into effective strategies for accelerating the diffusion of digital financial innovations. Moreover, longitudinal studies could track the adoption stages over time, offering a dynamic view of how digital banking services gain traction and achieve critical mass among small businesses.

5.3.3 Policy recommendations

To maximize the positive impact of digital banking on the financial performance of micro and small enterprises (MSEs) in Nairobi County, it is crucial to enhance access to digital banking services. This can be achieved by expanding the infrastructure for digital payments, digital credit, and digital savings. Financial institutions should focus on increasing the reach of mobile banking services, ensuring that even the most remote areas have reliable access to digital financial services. Policymakers should support this initiative by incentivizing private sector investments in digital infrastructure and by implementing policies that reduce the cost of digital transactions.

The success of digital banking largely depends on the ability of MSE owners to effectively use these services. Therefore, improving financial literacy and digital skills among entrepreneurs is essential. Financial institutions and government agencies should collaborate to provide training programs that educate MSE owners about the benefits and usage of digital banking tools. These programs should cover topics such as managing digital payments, accessing digital credit, and utilizing digital savings platforms. Enhanced digital literacy will empower MSE owners to make informed financial decisions, thereby improving their business performance.

Micro and small enterprises have unique financial needs that differ from larger businesses. To address these needs, financial institutions should develop tailored digital banking products specifically designed for MSEs. For example, creating micro-loan products with flexible repayment terms and providing savings accounts that offer higher interest rates for small depositors can significantly benefit these enterprises. Policymakers should encourage innovation in financial products through regulatory frameworks that support the development and deployment of customized digital banking solutions for MSEs.

As digital banking becomes more prevalent, ensuring the security of financial transactions and protecting consumer data is paramount. Financial institutions must invest in robust cybersecurity measures to safeguard against fraud and data breaches. Additionally, clear regulations and enforcement mechanisms should be in place to protect MSEs from potential risks associated with digital banking. Policymakers should work on developing comprehensive consumer protection laws that address the specific vulnerabilities of MSEs in the digital banking ecosystem.

Digital banking has the potential to significantly enhance financial inclusion for MSEs. Policymakers and financial institutions should focus on creating inclusive digital banking platforms that are accessible to all, including underserved and marginalized groups. Efforts should be made to reduce barriers to entry, such as high transaction fees and stringent credit requirements. By promoting inclusive financial policies, the government can help ensure that all MSEs, regardless of size or location, can benefit from digital banking services.

To effectively implement these recommendations, fostering public-private partnerships is essential. Collaboration between the government, financial institutions, technology providers, and other stakeholders can drive the development and adoption of digital banking services. Policymakers should create an enabling environment for such partnerships by providing incentives and removing regulatory obstacles. Joint initiatives can leverage the strengths of both public and private sectors to enhance the financial performance of MSEs through digital banking.

5.4 Areas for Further Studies

First, studies could investigate the specific barriers and challenges MSEs face in adopting digital banking technologies, particularly focusing on technological literacy, infrastructure, and security concerns. Additionally, research could examine the long-term impact of digital banking on financial inclusion, assessing whether digital banking truly enhances access to financial services for the most underserved segments of MSEs. Another area of interest could be the comparative analysis of the impact of different digital banking tools (such as mobile banking, internet banking, and digital wallets) on the financial performance of MSEs, identifying which tools are most effective in driving business growth. Further studies could also consider the role of government policies and regulatory frameworks in facilitating or hindering the adoption of digital banking among MSEs. Lastly, exploring the gender and age dynamics in the adoption of digital banking among MSE owners could provide valuable insights into how these factors influence financial performance in different demographic groups.

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APPENDICES

Appendix I: Letter of Introduction

Rose Wanjiru Kamunyu,

Po Box 20164, 00200,

Nairobi.

Thro' Moi University

Dear Sir/Madam,

RE: Request to Conduct Research,

I am a student at Moi University undertaking a master's Degree in Business Administration. As a partial fulfillment of my Master Degree, I am currently undertaking a research on the effects of digital banking on financial performance of micro and small enterprises in Nairobi County, Kenya.

Attached herewith is a questionnaire, I request you to read and complete the question on it. All the information provided will remain strictly confidential. If you are interested in the findings of this research, it shall be mailed to you upon request. Your cooperation and existence will be highly appreciated. Thank You.

Sincerely,

Rose Wanjiru Kamunyu

Appendix II: Questionnaire

SECTION A: GENERAL INFORMATION

1. Gender? Male { } Female { }

2. Education Level?

   Post Graduate { } Degree { }

   Diploma { } Secondary Certificate { }

   Any other (Specify) ……………………

3. Years of operation for this business?

   Less than 1year { } 1 -3 years { }

   4 -7 years { } Over 7 years { }

4. How many employees have you employed ?

   Less than 2 { } 3-5 { }

   6-8 { } 9 and above { }

5. In which business category are you involved?

   Green grocery { } Hawking { }

   Wholesale/Retail { } Retail { }

   Service sector { }

SECTION B: MOBILE PAYMENTS

6. Please use the following scale to indicate your response. Tick the best response. 1= strongly Disagree (SD) 2= Disagree (D) 3= Neutral (N) 4= Agree (A) 5= Strongly Agree (SA)

Digital payments	**5**	**4**	**3**	**2**	**1**
Using digital payment improves my performance in conducting purchase.					
Using digital payment makes it easier for me to conduct my business transactions.					
I would find digital payment useful in conducting purchase from other retailers					
I feel confident that mobile banking makes it safe for me to use digital payment.					
I feel assured that legal and technological structures adequately protect me from payment problems on the digital banking					
I can use digital banking from anywhere.					
I can use digital payment at any time.					

SECTION C: DIGITAL CREDIT

7. Please use the following scale to indicate your response. Tick the best response. 1= Strongly Disagree (SD) 2= Disagree (D) 3= Neutral (N) 4= Agree (A) 5= Strongly Agree (SA)

Digital Credit	**5**	**4**	**3**	**2**	**1**
I use mobile to access loan from digital lenders					
Digital credits is easy to access					
There are clear lending terms of digital credits					
The introduction of digital credit services has improved my business stock					
Due to digital credit, am able to order for goods as per the customer request anytime					

SECTION D: DIGITAL SAVING

8. Please use the following scale to indicate your response. Tick the best response. 1= Strongly Disagree (SD)2= Disagree (D)3= Neutral (N)4= Agree (A)5= Strongly Agree (SA).

Digital Savings	**5**	**4**	**3**	**2**	**1**
Am able to deposit saving to my account using digital phone					
I can save money in my digital phone anytime anywhere					
Am able to access to savings through digital money					
By use of till number or my sales go direct to my account which increase my savings					
Mshwari savings has increased my loan limit					
I can easily access my saving anytime from usingmy digital phone					

SECTION E: MICRO AND SMALL ENTERPRISES PERFORMANCE

9. Please use the following scale to indicate your response. Tick the best response. 1= Strongly Disagree (SD) 2= Disagree (D) 3= Neutral (N) 4= Agree (A) 5= Strongly Agree (SA).

Performance of MSE's	**5**	**4**	**3**	**2**	**1**
My organization makes a profit this year					
Profit for this month is higher than last month					
Profit for this year is higher than last year					
This enterprise makes higher sales for this year					
Sales for this month are higher than last month					
Sales for this year are higher than last year					
The enterprise makes higher cash flow for this year					
For this month, the actual cash income is higherthan the budgeted cash income					
For this year, the actual cash income is higher thanthe budgeted cash income					

Appendix III: NACOSTI License

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **254745**

Date of Issue: **03/October/2023**

RESEARCH LICENSE

This is to Certify that Miss.. Rose Wanjiru Wanjiru Kamunyu of Moi University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: EFFECT OF DIGITAL BANKING ON FINANCIAL PERFORMANCE OF MICRO AND SMALL ENTERPRISES IN NAIROBI COUNTY, KENYA for the period ending : 03/October/2024.

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Appendix IV: Plagiarism Certificate

SR550

ISO 9001:2019 Certified Institution

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PLAGIARISM AWARENESS CERTIFICATE

This certificate is awarded to

ROSE WANJIRU KAMUNYU

MBA/2009/18

In recognition for passing the University's plagiarism

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Word count: 22064

Awarded by

Prof. Anne Syomwene Kisilu

CERM-ESA Project Leader Date: 12/06/2024