Impact of Fintech (Financial Technologies) Usage on The Financial and Non-Financial Performance of Small and Medium Scale Enterprises in Nigeria

Akanbi, T. A., Oladejo, M. O. and Oyeleye, O. A.

Impact of Fintech (Financial Technologies) Usage on The Financial and Non-Financial Performance of Small and Medium Scale Enterprises in Nigeria

Akanbi, T. A., Oladejo, M. O. and Oyeleye, O. A.

Department of Management and Accounting, Ladoke Akintola University of Technology P. M. B. 4000, Ogbomoso, Oyo State, Nigeria.
Corresponding Author Email: taakanbi@lautech.edu.ng

Abstract

Small Medium Enterprises contribute immensely to the economic development of any country globally. Thus, their involvement in new innovative usage in recent times cannot be over-emphasized. Among the innovative is Financial Technologies (FinTech) which assists the enterprises to improve their performance. Therefore, this study examined the impact of Financial Technology usage on the financial and non-financial performance of Small the Medium Enterprises' in Nigeria. The study was carried out in Oyo State, Nigeria. 381 SMEs' were randomly selected from the 33 LGAs of the Oyo State. The data were analyzed using the one-way ANOVA analytical technique. The findings revealed that there is a significant relationship between FinTech usage and SME customer satisfaction; customer retention; turnover; and profitability. The study concluded that FinTech improves SMEs' performance significantly. It was recommended that SMEs should continue the implementation of FinTech in business operation because its improved financial and non-financial performance.

Keywords: Financial Technology, SMEs, FinTech, Financial Performance, Non-financial Performance

Introduction

The last two decades have witnessed advancements in technology in business which have empowered societies and changed the entire business landscape with new business and service models. However, the influx of financial technology (FinTech) has invariably affected different organizational cultures across the world. FinTech is a technology that is used to provide financial services of all kinds such as online transfer payment, online financial planning services, and online lending and borrowing through peer-to-peer systems, among others (Kyari & Akinwale, 2020). To put it in the simplest of terms, FinTech is the generic term used to describe the technology (internet, mobile devices, software app, cloud services, and many more) that are used in delivering financial services that were exclusive to traditional financial institutions (EFN, 2020).

Financial technology refers to companies that are in the business of interrupting the financial services industry by using technology and innovation to develop new business models and financial products/services. FinTech refers to the intersection of finance and

technology (Koffi, 2016; Ojo & Nwaokike, 2018), and it combines innovative business models and technology to improve and disrupt financial services (Ernst & Young, 2019). FinTech companies use technology to change how people pay, save, invest, borrow, transfer, and secure money, as well as how financial services providers conduct and deliver their services (Ojo & Nwaokike, 2018). FinTech is becoming more widely used around the world.

However, though since SMEs are the engines that lead to economic growth in both developing and developed countries, a greater focus on all factors that contribute to SMEs' growth and sustainability, particularly in Nigeria, is unavoidable. SMEs are a driver of ideas and fierce competition, in addition to being a vehicle for employment and political stability (Adeosun & Shittu, 2021). This implies that smaller companies are not public goods to be maintained by the government for political or social reasons, but rather tools for fostering entrepreneurship. Several other types of econometric studies have found a link between entrepreneurship and economic growth (Hamdana et al., 2020).

The shift in economic activity from the 1970s to the 1980s played a significant role in SMEs' current relevance (Adewole, 2017). The dramatic expansion of the economy's service sector paved the way for the rise of SMEs. Because developed and developing countries are rapidly deindustrializing, the industrial sector, particularly large firms, will be unable to provide much in terms of job creation, poverty alleviation, and high growth rates, the need to create an enabling environment for SMEs will become unavoidable.

SMEs, according to Oyelaran-Oyeyinka (2020), are businesses with a turnover of less than N100 million per year and/or fewer than 300 employees. According to IFC studies, 96 percent of Nigerian businesses are SMEs, compared to 53 percent in the US and 65 percent in Europe. In terms of number of businesses, SMEs account for roughly 90% of the manufacturing/industrial sector. They contribute about 1% of GDP, compared to 40% in Asian countries and 50% in the United States and Europe. This demonstrates that Nigerian SMEs still have a long way to go.

A young population, rising smartphone penetration, and a focused regulatory push to increase financial inclusion and cashless payments are combining to create the perfect recipe for a thriving FinTech sector, which is indirectly creating an enabling environment for businesses to thrive in terms of credit facility, customer perception, and payment solution. Nigeria now has over 200 FinTech start-ups, as well as several FinTech solutions offered by banks and mobile network operators as part of their overall product portfolio (Kola-Oyeneyin et al., 2021). However, the problems faced by SMEs before FinTech are enormous which include: lack of access to funding or credit facilities, rigorous process of applying for and getting a loan, inadequate, non-functional technological infrastructure facilities, inefficient, and at times, tend to escalate costs of operation (this can be in form of payment systems used by SMEs), lack of access to appropriate technology as well as the near absence of research and development and weakness in an organization, marketing, processing and retrieval, accounting records and processing, information-usage, and personnel management, etc. arising from the dearth of such skills in most SMEs due to inadequate educational and technical background on the part of the SME promoters and their staff.

Furthermore, most of these issues persist even after the adoption of FinTech, such as the lack of long-term finance to fund capital assets and equipment under project finance for SMEs, as well as a high fraud rate. For instance, a fake credit alert, a business email compromise, a phishing attack, and network failure when it is most needed, such as when a customer needs to make a payment and has no other choice. high levels of competition. However, few studies have been carried out in Nigeria to examine if these problems of

FinTech adoptions have derailed them from improving their performance in both financial and non-financial perspectives. Thus, this is the gap that this study intends to fill.

Objective of The Study

The objectives of the study are to:

- examine the relationship between FinTech usage and SMEs' customer satisfaction in Nigeria.
- ascertain the relationship between FinTech usage and SMEs; customer retention in Nigeria.
- examine the relationship between FinTech usage and the turnover of SMEs in Nigeria.
- analyze the relationship between FinTech usage and the profitability of SMEs in Nigeria.

Literature Review

Concept of SME Financial and Non-Financial Performance

Belás et. al., (2017) found that small and medium-sized businesses are the primary driving force behind the creation of new jobs and increased GDP. One of the most important prerequisites for the country's healthy economic development is the dynamic development of small and medium-sized businesses (Slovak Business Agency, 2016; Androniceanu & Popescu, 2017). Year after year, the number of small and medium-sized businesses increases. Risk-taking and competitive aggressiveness, both important aspects of SMEs' entrepreneurial orientation, have a big impact on their management. SMEs' ability to grow is highly dependent on their willingness to invest in restructuring, innovation, and training (Dobrovic et al., 2018).

Performance is one of the most important indicators for determining a society's level of development. To maximize business efficiency, measuring enterprise performance is critical. The challenges of the global business environment have recently re-emphasized the need for corporate organizations to be more concerned about business firm success. One of the most important variables that have attracted the attention of researchers in both finance and management literature is firm performance.

Firm performance is a concept that describes how well an organization achieves its goals. It shows how organizations have interacted over time (Saeidi et al., 2014; Ahmed and Manab, 2016). Firm performance is a metric that can be used to assess and measure how well a company achieves its business goals for all of its stakeholders. Firm performance refers to a company's ability to achieve its objectives through the efficient and effective use of available resources (Asat et al., 2015). Different types of performance indicators have been used in some studies to assess firm performance. Murphy et al (1996), for example, identified 71 performance parameters that researchers have used to assess both financial and non-financial performance. In most cases, financial measures are used to explain firm performance. Return on investment, return on sale, and return on equity, for example, are some of the most commonly used performance indicators.

Organizations have reverted to using both financial and non-financial performance measures for a more comprehensive assessment. According to Hakkak and Ghodsi (2015), implementing nonfinancial performance measures has a significant positive impact on a firm's competitive advantage and long-term viability. Furthermore, researchers have claimed that the current focus on traditional performance measures like return on investment or net earnings diverts a company's attention away from non-financial factors like customer satisfaction, product quality, productivity, and business efficiency.

Non-financial measures are thought to be better predictors of a long-term firm's performance, as well as allowing business leaders to monitor and assess their company more efficiently (Ahmed et. al., 2016). Nonfinancial performance metrics, despite their lower measurement accuracy, focus on components that directly relate to operations that are under management's control. Firms engaged in unethical accounting strategies to omit relevant information about their financial data, as revealed by recent scandals. These and other factors have justified the need for businesses to place a premium on firm performance (i.e., both financial and non-financial).

Conceptual Framework for the Study

It is critical to explain the conceptual model used in this study to ensure a clear and precise reading that leads to a thorough understanding of the research topic. The conceptual model explains the interrelationships between the variables or concepts used in the research (Akpabio, 2015). The conceptual model is a collection of interconnected diagrams that aid in the presentation of a systematic view of phenomena by specifying relationships between independent and dependent variables to explain and predict phenomena for decision-making (Kivunja, 2018).

Because it explains the variables under study, the conceptual model in a study ensures that the study's results are not left hanging. The proposed model, as shown in Figure 1, links the interactions between the study's independent, intervening, and dependent variables. The researcher used the following metrics to measure financial and non-financial performance, which were the dependent variables FinTech was compared to, to determine the effect of FinTech usage: (1) customer satisfaction; (2) customer retention; (3) turnover; and (4) profitability are all important factors to consider. SME product/service quality and competition are identified as independent intervening variables. The following conceptual model will be used to investigate the impact of FinTech on SMEs' financial and non-financial performance. FinTech was an independent variable in the framework, while product quality and competition were intervening independent variables, and SME financial and nonfinancial performance was the dependent variable. The study's four hypotheses were established using the conceptual framework.

Figure 1: Conceptual Framework
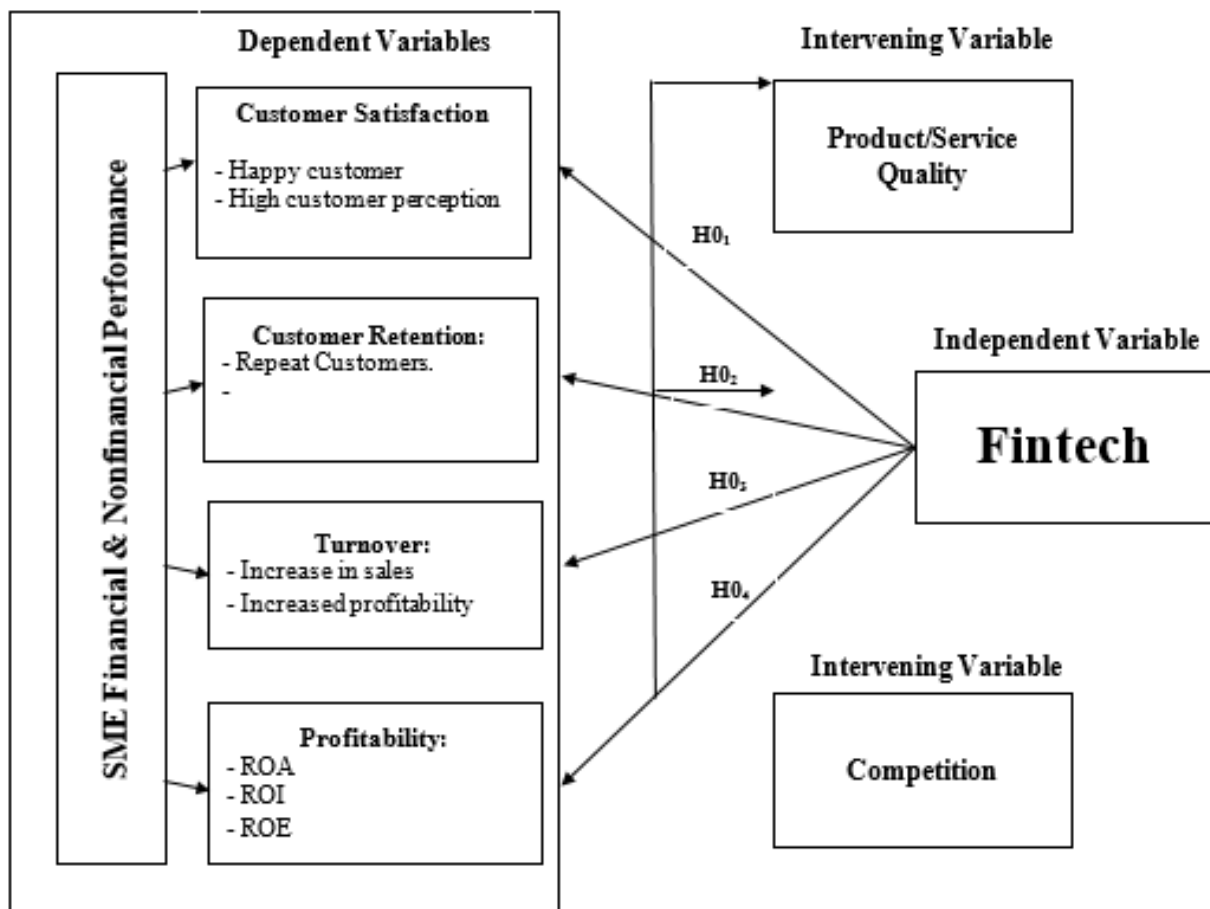
Researcher's Conceptual Model, 2022.

Hypotheses of the Study

The following hypotheses were tested in the study:

H_{01}:   There is no significant relationship between FinTech usage and SME customer satisfaction

H_{02}:   There is no significant relationship between FinTech usage and SME customer retention

H_{03}:   There is no significant relationship between FinTech usage and the turnover of SMEs

H_{04}:   There is no significant relationship between FinTech usage and the profitability of SME

Methodology

The study was conducted in Oyo state. Oyo state is mostly known for its capital city – Ibadan, which is the third-most populous city in Nigeria and a hub for various commercial activities.

The population for this study consists of all Small and Medium Scale Enterprises in Oyo, a recent report published by SMEDAN (2013) shows that there were as at the time of the report 7,468 and 519 small and medium scale enterprises respectively in Oyo state. Though the figures would have increased massively during the time of this research study, there was no data to verify this, thus the exact population under study was unknown, but comprises all small and medium scale enterprises in Oyo state. The total population was 7,987 (7,468 +519).

Yamane technique was used to reduce the population to a 381 sampling size. Therefore, 381 SMEs' were randomly selected from all the 33 local government areas in Oyo State. For the validity of the research instrument, the questionnaire was subjected to face validation by lecturers in the Department of Accounting at Ladoke Akintola University of Technology, Ogbomoso. For the reliability of the research instrument, a pilot survey was carried out. The pilot survey was measured using Cronbach's Alpha method. Data collected through the questionnaire were analyzed using one-way ANOVA at a 0.05 level of significance. The analysis was computer-based with the use of the Statistical Package for Social Sciences (SPSS 25.0 version).

Results and Discussion
The hypotheses stated for the study were tested accordingly and the results are presented as follows:

H$_{01}$: **There is no significant relationship between FinTech usage and SME customer satisfaction**
This hypothesis was tested using one-way ANOVA without a post hoc because the group is not up to three. FinTech usage among SMEs and customer satisfaction were divided into two groups. The first group is those satisfied with FinTech usage while the second group is those that are not satisfied. The ANOVA result is presented in table 1.

Table 1: One-way ANOVA for a significant relationship between FinTech usage and SME customer satisfaction

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	5.851	1	5.851	120.684	.000
Within Groups	18.375	379	.048		
Total	24.226	380			

Source: Field survey (2022)

A p-value of less than .05 was required for significance. The ANOVA was significant $F(1, 380)= 120.684$, $p= 0.00$. This result allowed prompted the rejection of the first null hypothesis (H$_{01}$). Hence, the hypothesis of the study that stated that there is no significant relationship between FinTech usage and SME customer satisfaction was rejected.

H$_{02}$: **There is no significant relationship between FinTech usage and SME customer retention**

This hypothesis was also tested using one-way ANOVA. FinTech usage among SMEs and customer retention were divided into two groups. The first group is those satisfied with FinTech usage while the second group is those that are not satisfied. The ANOVA result is presented in table 2.

Table 2: One-way ANOVA for a relationship between FinTech usage and SME customer retention

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	4.175	1	4.175	50.033	.000
Within Groups	31.626	379	.083		
Total	35.801	380			

Source: Field survey (2022)

A p-value of less than .05 was required for significance. The ANOVA was significant $F(1, 380)= 50.033$, $p= 0.00$. This result allowed the rejection of the second null hypothesis (H_{02}). Hence, the hypothesis of the study that stated that there is no significant relationship between FinTech usage and SME customer retention was rejected.

H_{03}: **There is no significant relationship between FinTech usage and the turnover of SMEs**
This hypothesis was also tested using one-way ANOVA. FinTech usage among SMEs and their turnover were divided into two groups. The first group is those satisfied with FinTech usage while the second group is those that are not satisfied. The ANOVA result is presented in table 3.

Table 3: One-way ANOVA for a relationship between FinTech usage and the turnover of SME

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	4.625	1	4.625	62.663	.000
Within Groups	27.973	379	.074		
Total	32.598	380			

Source: Field survey (2022)

A p-value of less than .05 was required for significance. The ANOVA was significant $F(1, 380)= 62.663$, $p= 0.00$. This result allowed the rejection of the third null hypothesis(H_{03}). Hence, the hypothesis of the study that stated that there is no significant relationship between FinTech usage and the turnover of SMEs was rejected.

H_{04}: **There is no significant relationship between FinTech usage and the profitability of SME**
This hypothesis was also tested using one-way ANOVA. FinTech usage among SMEs and their profitability were divided into two groups. The first group is those satisfied with FinTech usage while the second group is those that are not satisfied. The ANOVA result is presented in table 4.

Table 4: One-way ANOVA for a relationship between FinTech usage and the profitability of SME

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	9.774	1	9.774	162.296	.000
Within Groups	22.824	379	.060		
Total	32.598	380			

Source: Field survey (2022)

A p-value of less than .05 was required for significance. The ANOVA was significant $F(1, 380)= 162.296$, $p= 0.00$. This result allowed the rejection of the fourth null hypothesis (H_{04}). Hence, the hypothesis of the study that stated that there is no significant relationship between FinTech usage and the profitability of SMEs was rejected.

Discussion of Findings

The first hypothesis of the study was tested using one-way ANOVA. The p-value is less than .05. Also, the ANOVA was significant $F(1, 380)= 120.684$, $p= 0.00$. Hence, the hypothesis of the study that stated that there is no significant relationship between FinTech usage and SME customer satisfaction was rejected. The second hypothesis was also tested with one-way ANOVA. The ANOVA was significant $F(1, 380)= 50.033$, $p= 0.00$. Therefore, the hypothesis of the study that stated that there is no significant relationship between FinTech usage and SME customer retention was rejected. The third hypothesis was also tested using one-way ANOVA. The ANOVA was significant $F(1, 380)= 62.663$, $p= 0.00$. Therefore, the hypothesis of the study that stated that there is no significant relationship between FinTech usage and the turnover of SMEs was rejected. Lastly, the fourth hypothesis was also tested using one-way ANOVA. The ANOVA was significant $F(1, 380)= 162.296$, $p= 0.00$. Thus, the hypothesis of the study that stated that there is no significant relationship between FinTech usage and the profitability of SMEs was rejected.

Conclusion

The study concludes that FinTech usage: has a significant effect on customer satisfaction and retention of SMEs; payment solution of SMEs; turnover of SMEs and; ease of access to a loan of SMEs. Thus, FinTech implementation in business has become more significant, and it brings about rapid positive change in business from a financial and non-financial standpoint.

However, there are few studies on FinTech in Nigeria, most especially its impact on non-financial performance. Thus, this study will not only add to the empirical literature but also add to the understanding of business practitioners about business growth in terms of business performance improvement, decision making, and customer satisfaction.

Recommendations

Small and Medium Enterprises are employed to continue the implementation of FinTech in their business as it improves performance. Secondly, if it requires more financial aid to engage more sophisticated FinTech devices and software, SMEs should not hesitate to seek financial assistance from the relevant quota.

References

Adewole, M. A. (2017). *Improving the Institutional Environment for SME Success in Nigeria*. https://ssrn.com/abstract=2915002.

Adeosun, O. T., & Shittu, A. I. (2021). Learning and innovation in youth-owned small businesses. *Rajagiri Management Journal*, *15*(1), 69–87.

Ahmed, I., Manab, N. A. (2016). Influence of Enterprise Risk Management Success Factors on Firm Financial and Non-financial Performance: *A Proposed Model. International Journal of Economics and Financial Issues*. 6(3), 830-836.

Akpabio, I. (2015). Improving utilization of conceptual and theoretical framework in nursing research. *Global Journal of Pure and Applied Sciences*, *21*(1), 87–91.

Androniceanu, A. & Popescu, C. R. (2017). An inclusive model for an effective development of the renewable energies public sector. *Administratie si Management Public*, (28), 81–96.

Asat, S. H., Maruhun, E. N. S., Haron, H., & Jaafar, M. (2015), *Enterprise Risk Management (ERM) and Organisational Performance: The Case of Housing Developers in Malaysia*. MARIM International Conference, Langkawi.

Belas, J., Dvorsky, J., Tyll. L., & Zvarikova, K. (2017). Entrepreneurship of university students: Important factors and the propensity for entrepreneurship. *Administratie Si Management Public,* 28(1), 6–25.

Dobrovic, J., Lambovska, M., Gallo, P., & Timkova, V. (2018). Non-Financial Indicators and their Importance in Small And Medium-Sized Enterprises. *Journal of Competitiveness.* 10(1), 41-45.

Ernst & Young. (2019). *Ernst & Young LLP Annual Audit Report 2019-20*. https://assets.ey.com/content/dam/ey-sites/ey-com/nl_nl/topics/jaarverslag/downloads-pdfs/2019-2020/ey-financial-statements-2020-en.pdf

Evolution of FinTech in Nigeria (EFN). (2020). *Lead Web Praxis Media Limited - Web Design & Development, App Development, Digital Marketing Company in Abuja, Lagos, PH, Nigeria*. https://leadwebpraxis.com/evolution-of-FinTech-in-nigeria/

Hakkak, M., & Ghodsi, M. (2015). Development of a sustainable competative advantage model based on balanced scorecard. *International Journal of Asian Social Science*, 5(5), 298-308

Hamdana, A., Almubarak, M., & Sarea, A. M. (2020). Entrepreneurship and Economic Growth: Literature Review. *International Journal of Psychosocial Rehabilitation*, 24(3), 937–943.

Kivunja, C. (2018). Distinguishing between Theory, Theoretical Framework, and Conceptual Framework: A Systematic Review of Lessons from the Field. *International Journal of Higher Education*, *7*(6), 44-53.

Koffi, H. (2016). The FinTech Revolution: An Opportunity for the West African Financial Sector. *Open Journal of Applied Sciences*. 6(11), 771-782.

Kola-Oyeneyin, T., Kuyoro, M., & Olanrewaju, T. (2021, February 9). *Harnessing Nigeria's FinTech potential*. https://www.mckinsey.com/featured-insights/middle-east-and-africa/harnessing-nigerias-FinTech-potential.

Kyari, A. K., & Akinwale, Y. O. (2020). An Assessment of the Level of Adoption of Financial Technology by Nigerian Banks. *African Journal of Science Policy and Innovation Management*. 1(1), 118–130.

Murphy, G. B., Trailer, J. W., & Hill, R. C. (1996) Measuring Performance in Entrepreneurship Research. *Journal of Business Research*, 36, 15-23.

Ojo, O., & Nwaokike, U. (2018). Disruptive Technology and the FinTech Industry in Nigeria: Imperatives for Legal and Policy Responses. Gravitas Review of Business and Property Law, 9(3). https://doi.org/10.2139/ssrn.3306164

Ojo, O., & Nwaokike, U. (2018). Disruptive Technology and the FinTech Industry in Nigeria: Imperatives for Legal and Policy Responses. Gravitas Review of Business and Property Law, 9(3). https://doi.org/10.2139/ssrn.3306164

Ojo, O., & Nwaokike, U. (2018). Disruptive Technology and the FinTech Industry in Nigeria: Imperatives for Legal and Policy Responses. Gravitas Review of Business and Property Law, 9(3).
https://doi.org/10.2139/ssrn.3306164

Ojo, O., & Nwaokike, U. (2018). Disruptive Technology and the FinTech Industry in Nigeria: Imperatives for Legal and Policy Responses. Gravitas Review of Business and Property Law, 9(3).
https://doi.org/10.2139/ssrn.3306164

Ojo, O., & Nwaokike, U. (2018). Disruptive Technology and the FinTech Industry in Nigeria: Imperatives for Legal and Policy Responses. Gravitas Review of Business and Property Law, 9(3).
https://doi.org/10.2139/ssrn.3306164

Ojo, O., & Nwaokike, U. (2018). Disruptive Technology and the FinTech Industry in Nigeria: Imperatives for Legal and Policy Responses. Gravitas Review of Business and Property Law, 9(3).
https://doi.org/10.2139/ssrn.3306164

Ojo, O., & Nwaokike, U. (2018). Disruptive Technology and the FinTech Industry in Nigeria: Imperatives for Legal and Policy Responses. *Gravitas Review of Business and Property Law*, 9(3), 1-19.

Oyelaran-Oyeyinka, B. (2020). *SME: Issues, Challenges and Prospects*. Financial System Strategy. 2020 International Conference.

Saeidi, S. P., Sofian, S., Saeidi, P., Saeidi, S. P., & Saaeidi, S. A. (2015). How does corporate social responsibility contribute to firm financial performance? The mediating role of competitive advantage, reputation, and customer satisfaction. *Journal of Business Research*, 68(2), 341-350.

Slovak Business Agency. (2016). *"National NPC Project in the Regions" of the Slovak Business Agency (SBA).* Code OPVaI-MH / NP / 2016 / 3.1.1 / 3.3 .1-02.

SMEDAN. (2013). *SMEDAN and National Bureau of Statistics Collaborative Survey: Selected Findings.* https://www.questionpro.com/article/surveyresearch.html#:%7E:text=The%20traditional%20definition%20of%20survey,collection%2C%20and%20analysis%20of%20data.