

The Effects of EVC Plus on Firm's Sales Performance

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Abstract

This paper analyzed how EVC Plus affects the sales performance of local firms using coded data from HORMUUD Telecom (2017-2020) for privacy purposes and survey questionnaires extracted from local universities. Five clusters were chosen as a sample, universities, grocery supermarkets, pharmacies, utility companies, and government agencies. The study uses an autoregressive model and other techniques. The findings reveal that the adoption of EVC plus has a strong positive and significant correlation with a firm's performance. The highest correlation coefficient is found in utility firms, followed by the universities, where almost all transactions are made in EVC Plus mobile money transfers.

Keywords: EVC plus, sales performance, mobile money

1. Introduction

In Somalia, several companies provide telecommunication and mobile banking services. HORMUUD Telecom is leading and one of the main telecommunication services providing companies in Somalia. HORMUUD Telecom, a south-central-based telecommunication company that introduced mobile money transfer a decade ago called EVC Plus (Electronic Voucher Card Plus) which has become so convenient for business activities and money remittance. Mobile money transfer is widely used in Somalia compared to most other African countries making Somalia one of the most vibrant mobile money markets in the (SEU/World Bank, 2018). More than 10 years ago, mobile money payment simply began with airtime sharing between users and rapidly became a perceived safer and convenient way of transferring and receiving money. The distinction of mobile money transfers in Somalia is that most transactions are made in US Dollars. Increased mobile ownership in Somalia enhances mobile payments, around nine-ten Somalia populations aged above 16 at least have one cell phone. Concerns over the widespread use of fake money, lack of monetary regulation, and limited access to conventional banking services made mobile payment an effective alternative option for cash (the conversation, 2018). HORMUUD's EVC Plus service has been the backbone of daily selling and buying activities in Somali markets stimulating the economy thanks to the wide adoption of EVC Plus.

The EVC Plus money transfer is a widely used application in the Somali markets but its impact on the firm's sales performance remains empirically undocumented, and therefore, that's what this paper is intended to investigate. The study applies the Autoregressive (AR) model and other techniques utilizing data from HORMUUD Telecom plus questionnaires collected from local universities. The results indicate that a strong positive and significant correlation between sales performance and EVC plus adoption. This correlation between two variables is more pronounced in utility firms and universities relative to other clusters, where almost all tuitions and bills are paid in mobile money transfers by students and clients.

2. Literature EVC

In Somalia, around 155 million mobile money transfer transactions take place worth \$2.7 billion per month because more than 70% of adult populations use mobile payment services regularly (World Bank 2018). A large percentage of the Somali population pursue nomadic life and lack access to a formal banking system where approximately only 15 percent of the population has a personal bank account, EVC Plus helps such people to have financial inclusion (the conversation, 2018). Hormuud Telecom, the country's largest telecommunications provider, was awarded a license for its EVC Plus services by the Central Bank of Somalia (Reuters, 2021). Hormuud Telecom is the first mobile money transfer provider that received a license in Somalia. EVC Plus service, a free mobile money technology application used by approximately 3 million people out of its 3.6 million subscribers in Somalia,

(VOA, 2021). Africa in general, Information Communication and Technology (ICT) infrastructures have been improving since 2000 having so many developmental impacts on the countries in the continent. ICT infrastructure development in Africa increased mobile phone ownership and internet subscribers as well as financial technology. By 2002, cell phone ownership in many countries in Africa was around one-in-ten and today cellphone ownerships are as common as in the US (Pew Research Center, 2015). Earlier in 2000, the international Internet bandwidth in Luxembourg was more than the entire African countries (ITU, 2000). McKinsey Global Institute (2013) more than half of urban adults have Internet-capable devices. Like many African countries, mobile payments became popular and very convenient in today's digital era with the EVC Plus service provided by Hormuud Telecom. The adoption of cell phone money transfers will help individuals and businesses solve the challenges associated with making transactions and remittance (Ayo, Ukpere, Oni, Ometo, & Akinsiko, 2012). Mobile payment has positive impacts on small and medium enterprises' financial performance (Sayid and Omar, 2016). The electronic voucher card plus (EVC Plus), a mobile application for money transfers launched by the leading telecommunication company HORMUUD is commonly used for selling, buying, sending, and receiving money in the South-Central provinces of Somalia, (Ali & Dhaha, 2014).

Information Communication and Technology (ICT) infrastructures have been in increase and have so much development impacts on African countries. ICT infrastructures have been Improving since the early 2000s, enhancing access to the internet while the number of cell phone subscribers considerably increased making Africa a technologically better place. The greater the ICT infrastructure exists, the better and easier access to ICT. The ICT itself fosters the adaptation of ICT technologies and innovation (Abdisalan, 2021). Financial technology (Fintech) has been gaining increasing that fundamentally shaping the business of financial services. Fintech has a contribution to a firm's growth and that impact depends on the business characteristics of the technology, such as the business application and activity types (Mitra & Karathanasopoulos, 2020). The impacts of fintech on the firm have the operational risk so firms need to consider both the risk and benefits in implementing a new technological innovation (Mitra & Karathanasopoulos, 2020). Mobile money providers were praise for providing much-needed services in the entire country securing a 92% satisfaction rate for Somalis due to the fast and convenience of Mobile money transfers. Around 63% of mobile money users prefer to keep their money on the phone rather than cash (World Bank, 2017). The use of EVC Plus includes merchant activities, salary, and utility payments. EVC Plus contributes to economic development by facilitating economic activities. Further, it is available and accessible in remote areas and it safe and easily controllable. The study found that mobile money has an important contribution to the business sector as the majority of the merchants rely on it as an alternative for the formal banking sector for their day-to-day business activities (Mohamed, 2019).

3. Data

Data applied for this study is from HORMUUD Telecom and it was coded data for privacy purpose. There is questionnaire data collected from local universities. It is time series and firm-level data extracted from five sub-sector clusters in Mogadishu, Somalia. There are five clusters such as universities, utilities, grocery supermarkets, government agencies, and pharmacies. The data is monthly that spans (2017-2020) and contains basic information about the firms and the use of EVC Plus service for business activities. The basic information includes the monthly transferred total amount, number of transfers, number of unique transfers, and number of multiple transfers. Unique transfer occurs when the customer makes a single transfer each month (for example, paying one electricity bill every month) while multiple transfers happen when one customer makes multiple electricity bills like office and home or for several homes. The data intended to analyze how the EVC Plus impacts the performance of the local enterprises.

4. Analysis

The total amount transfers and the number of transfer transactions have direct relationships implying when the number of transfers increases, the total amount transfers increase. Mobile money transfer applications have progressively increased both in size and number. The sources of this increase in total amount and number of transfers may include (1) improvement of economic conditions, (2) increased mobile money adoption and HORMUUD service subscribers (users/market size), (3) increase in enrolling students, and (4) all above combined or some of them. Improved economic conditions stimulate economic activities (sending and receiving). The total amount transferred divided by the number of transfers that took place in the given period of consideration shows a consistent surge in the annual average amount per transfer using EVC plus service. In other words, over the last five years, the approximately annual average amount is \$73.47 million mobile money transfers received by five universities used as a sample in the study.

Generally, since the Federal Government of Somalia launched a standardized national examination for grade 12

students in 2015, the number of candidate students has substantially increased from 3,500 in 2015 to 33,727 in 2020 in the south-central part of Somalia. Universities in Mogadishu are the main destination for study. For the first time of unified national examinations after 30 years, students were so reluctant to participate in the national exam for security concerns and due to a lack of knowledge about its importance. But as time went by and country stability improved, so many students graduated from many high schools and participated in the unified national examinations.

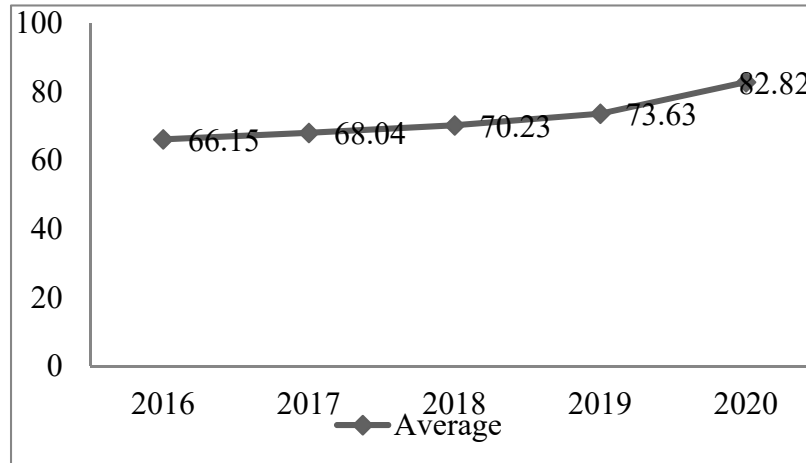


Figure 1. Annual Average Amount per Transfer (Universities)

The buying and selling activities started declining in 2019 because it became a season for forex and money people put their money into forex companies in Mogadishu, which reduces population consumption/spending followed by the economic crash in 2020 due to the corona pandemic. Few forex trading firms held huge unregulated cash by enticing clients will get high returns on their investments. In 2020, the Somali economy, more particularly the financial sector affected by the pandemic. As the figure below indicates, grocery shops selling activities show declining patterns for the last two years and the optimal use of EVC Plus for grocery activities was in 2018. Late of 2018, other mobile money transfer services launched by Somtel company and named Edahab followed by Somnet mobile money. these launches have taken their market share in mobile money transfer services in Mogadishu Somalia. The figures were derived from the total amount of mobile money transfers divided by the number of transfers made during the sample using EVC Plus for trading activities.

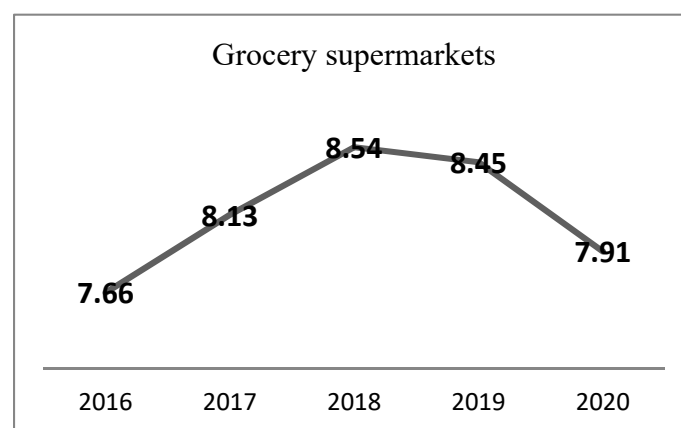


Figure 2. Annual average amount per transfer

The paper is aimed at analyzing the impact of EVC Plus uses on a firm’s sales performance applying monthly sales made in mobile money transfers. Government service means EVC plus service used for applying government-provided services such as for instance, license, passport, and notarial service, or paying taxes. This

government service represents only one agency of the government (not multiple agencies). Four Grocery supermarkets were used as a sample. The study uses only sales made by these selected grocery shops in EVC Plus payment. The utility variable contains three water suppliers and one electricity company in Mogadishu city combined. Universities are five and have the largest number of observations. Utilities have the largest mean and standard deviation followed by the universities compared to other variables in the table. Three pharmacies were chosen to ensure the generality of the study by collecting data from main different types of businesses.

This table depicts the central tendency measures for variables of the study. It provides summary statistics of independent and dependent variables showing that the average means of all variables are greater than their standard deviations. Theoretically, a small rate of standard deviation suggests the mean is good representative of data and vice versa. Although both mean and standard deviation are non-normally distributed data, still the level of mean and standard deviation are good indicators of data quality where for this table standard deviation is smaller than its mean implying that the data has less spread out (outliers).

Table 1. Summary Statistics

VARIABLE	N	MEAN	SD
Log of Sales	880	11.28	1.115
Log of EVC Plus	880	7.95	1.49

5. Research Methodology

This paper investigates how HOURMUUD's EVC Plus (Electronic Voucher Card) influences on firm's performance. The adoption of EVC Plus usage in Somalia has been increasing sales volume through cash availability and convenience. This study applies the Autoregression model that suits to predict the future outcome of time series data using data from several sources like HORMUUD Telecom and the survey questionnaire. The model specification is as follows:

$$\ln S_{it-1} = \alpha_0 + \alpha_1 \ln x_{it-1} + \beta_2 f_{it-1} + \beta_3 y_{it-1} + \varepsilon_{it-1}$$

$\ln S_{it}$ represents a log of dependent variable which is sales of a firm i at time t , where $t - 1$ indicates that the data was lagged one year and $\ln S_{it}$ is the log of the total amount of money transferred (EVC Plus). In other words, it is the sales made using EVC plus mobile money transfer service. The $\ln x_{it}$ represents an independent variable, the number of EVC Plus subscribers who buy goods and services from the selected firms. Its number of EVC Plus users for their buying activities which is an indication for adoption level of mobile money application. It is a log of the number of transfers for merchant activities. f denotes firm's effects on sales increase such as selling techniques and managerial procedures and it is the control variable of the model. Finally, y is the time effect and ε_{it} is an error term.

6. Results

As the table below indicates, EVC Plus has a significant and positive relationship with a firm's selling performance. Throughout the table, each control variable dropped once to reveal the effect of the variable of interest on a firm's selling performance showing changes in the coefficient, implying that the influences of control variables on sales differ. Using the autoregression model, column one shows that EVC increases a firm's sales by 9.5 percent. In other words, the application of EVC Plus promotes the firm's selling performance by 9.5 percent, and 90.5 percent of that selling performance is contributed by other economic factors and marketing techniques of the firm. The effect of the firm is the most influencing variable comparing to other control variables, which could be marketing techniques, and management. Comparison made in a correlation coefficient of the clusters shows that the utility companies have the highest followed by the universities while the lowest in the government institutions. University tuition and utility bills are often paid in mobile money in Somalia. And that is why EVC plus has the highest impact on these two clusters compared to others.

Table 2. Empirical Results

Variables	(1)	(2)	(3)	(4)
Log of EVC Plus	0.952*** (0.014)	0.954*** (0.013)	0.473*** (0.019)	0.557*** (0.017)
Time FE	Yes		Yes	
Firm FE	Yes	Yes		
Firm*Time	Yes			
Constant	-13.57 (14.98)	3.499*** (0.135)	17.25* (9.002)	6.853*** (0.136)
Observations	879	879	879	879
R-squared	0.967	0.963	0.61	0.554

Note. Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1.

For robustness check, the ordinary least square (OLS) model was applied and produced a similar result to the basic model. Both models show that EVC plus and firm sales performance has a statistically significant and positive relationship. The strong relationship between mobile money and sales performance revealed by the models can be drawn from the ten (10) key drivers behind the wide adoption of HORMUUD's EVC Plus, which were summarized here:

1. Safer than holding physical cash.
2. Time/space-saving, no need to count it. Normally, counting physical cash takes time and space for waiting.
3. It is more accurate, and shows the actual amount paid. When the transfer is done you receive a confirmation message instantly showing the actual amount sent as well as your current balance.
4. Very economical, you can buy an item with cents. You can send cents.
5. Very convenient, you don't need to carry cash/wallet.
6. Fast, you can transfer money to your loved one immediately wherever they maybe.
7. Highly controllable, if you send money to the wrong subscriber, you can withdraw/freeze it from the wrong receiver by yourself or ask HORMUUD for help.
8. It is your bank; you can deposit money to your bank account and withdraw it around the clock.
9. Good for business, it improves payment, cash availability, and emergence of money. For instance, if you are at a shop and you have insufficient money on your phone, you can call someone and ask for money to complete your buying activities.
10. No transfer cost (no fees/charges on the transaction).

7. Conclusion

The paper has examined the impact of EVC Plus (Electronic Voucher Card) on a firm's sales performance. The EVC plus is a mobile money application introduced by HORMUUD Telecom, the largest telecommunication company in Somalia. The EVC plus is a widely adopted and preferred mobile money application for transferring and receiving money instantly. The study analyzed the relationship between firm's sales and EVC usage in trading activities. The study is applying the autoregression model; the findings show a statistically and positive relationship between sales and the usage of EVC plus. The number of EVC plus transfers contributes 9.5 percent to the firm's profitability/sales on average, keeping all other things constant. Comparing the effects of EVC use on sales performance among clusters such as grocery shops, pharmacy, universities, government, and utility companies, utility companies have the highest correlation coefficient followed by the universities (the use of EVC is more pronounced in these two clusters). This is because students transfer school tuition and fees by using EVC plus

and utility bills are also paid in EVC plus. This paper implies that mobile money transfers promote sales/profitability through the summarized ten (10) key drivers behind the wide adoption of HORMUUD's EVC Plus. The weakness of this study is that it lacks some control variables that influence the firm performance, including human skills, management style, innovation, and economic cycle over the sample.

Mobile money needs an effective regulation to monitor and protect the value of money. The value of mobile money heavily relies on the perceived/actual value of the firm and is managed by the firm, not the government institutions. Anything that happens to this firm will damage the value of EVC Plus and the money of ordinary citizens. The firms should at least monitor and forecast changes in mobile money applications to salvage people's wealth.

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