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SCHOOL OF GRADUATE STUDIES

The Role and Impact of Merchant Acceptance towards Enhancing Bank's Profitability in case of Dashen Bank

BY

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July, 2015

Addis Ababa, Ethiopia

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Advisor:

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Dejene Mamo (Assistant Prof.). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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Name Signature

St. Mary's University, Addis Ababa July, 2015

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

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Advisor Signature

St. Mary's University, Addis Ababa, July, 2015

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ACRONYMS & ABBREVIATIONS

AMEX	American Express
ATM	Automatic Teller Machine
CSF	Critical Success Factors
CUP	China Union Pay
E-banking	Electronic Banking
EBSD	Electronic Banking Service Department
EBT	Electronic Benefit Transfer
EFT	Electronic Fund Transfer
EMV	Europay, MasterCard, VISA (smart or chip card)
E-payment	Electronic Payment
ETC	Ethiopia Telecommunication Corporation
EPS	Electronic Payment System
GDP	Gross Domestic Product
ICT	Information and Communication Technology
MC	Master Card
PIN	Personal Identification Number
POS	Point of Sale
VISA	Visa International Service Association (credit card company)

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CHAPTER ONE

1.0. INTRODUCTION

1.1. BACKGROUND OF THE STUDY

The research examined the role and impact of merchant acceptance towards enhancing banks profitability in the case of Dashehn Bank. Ethiopian banking system is one of the most underdeveloped compared to the rest of the world (Tewdros, 2011). The rapidly growing information and communication technology (ICT) is knocking the front-door of every organization in the world, where Ethiopian banks would never be exceptional. In the face of rapid expansion of electronic payment (E-payment) systems throughout the developed and the developing world, Ethiopian's financial sector cannot remain an exception in expanding the use of the system (Gardachew, 2010). Technological innovations play a crucial role in banking industry by creating value for banks and customers, that it enables customers to perform banking transactions without visiting a brick and mortar banking system. On the other hand E-banking has enabled banking institutions to compete more effectively in the global environment by extending their products and services beyond the restriction of time and space (Turban 2008). However, mirroring the development of E-commerce, the adoption and diffusion of electronic banking (E-banking) system is not well developed in Ethiopia (Ayana, 2012).

Merchant Banking is a combination of Banking and consultancy services. It provides consultancy to its clients for financial, marketing, managerial and legal matters. Consultancy means to provide advice, guidance and service for a fee. It helps a businessman to start a business. It helps to raise (collect) finance. It helps to expand and modernize the business. It helps in restructuring of a business. It helps to revive sick business units. It also helps companies to register, buy and sell shares at the stock exchange. Merchant Banking gives both Banking Services and Consultancy Services (Gaurav, 2011).

Banking Services**:** It helps business men to start a business and helps to rise (collect) finance. Consultancy Services: It provides consultancy to its clients for financial, marketing, managerial and legal matters. Merchant Banking acts as a Financial Engineer for a business. In short, merchant banking provides a wide range of services for starting until running a business. It acts as Financial Engineer for a business (Gaurav, 2011).

Electronic Payment Systems apart from their convenience and safety also have a significant number of economic benefits (Ann Cobb, 2004). The major economic benefits of EPS include mobilizing savings and ensuring most of the cash available in the country are with the banks. This will make funds available to borrowers (businesses and individuals). Furthermore, an electronic payment system has the ability to track individual spending; to facilitate the design of products by the banks. This information is also useful to the government when making economic decisions. EPS also have the ability to reduce cash handling and printing costs (Delali, 2010).

Over the years we have experienced a progression of value transfer systems starting from barter, through bank notes, payments orders, cheques, and later Credit Cards.(Asokan, et. al., 2000) This has finally evolved into Electronic payment systems which enables commerce on the Internet. Modern trends indicate that electronic payment systems have become a significant element in all trade and commerce activities globally. The scope of electronic payments extends from under one dollar to Multi-Million dollar transactions. Despite the benefits that electronic payment systems has brought to other economies such as the western developed countries, economies in Africa, which are still in the early stages of applying electronic payment systems are yet to experience its maximum economic and operational impact (Ackorlie, 2009).

According to Ayana (2014), the major barriers Ethiopian banking industry faces in the adoption of electronic banking are: security risk, lack of trust, lack of legal and regulatory frame work, Lack of ICT infrastructure and absence of competition between local and foreign banks (Ayana, 2014).

According to Jensen (2003), most countries in Africa, except South Africa, have Internet infrastructure only in their major cities. Lack of suitable legal and regulatory framework for E-commerce and Electronic payment is another impediment for the adoption of new technology in banking industry. There is no separate legislation that deals with electronic banking including enforceability of the validity of electronic contracts, digital signatures and intellectual copyright and restricts the use of encryption technologies and High rates of illiteracy. Low literacy rate is a serious impediment for the adoption of E-banking in Ethiopia as it hinders the accessibility of banking services. For citizens to fully enjoy the benefits of E-banking, they should not only know how to read and write but also possess basic ICT literacy (Gardachew, 2010).

Wondwossen & Tsegai (2005) observed the following reasons which may be considered as hindrance factors for the use of electronic payment system in Ethiopia. These hindrance factors include, lack of appropriate infrastructure for E-payment, lack of internet facilities with customer and learning how to interact with bank website. Moreover, factors that can affect adoption of E-banking in the country regarding the technological factor are organizational factor and Environmental factor (Mohammed, 2014).

Though problems aplenty a study conducted by Wondwossen and Tsegai (2005) revealed that an adequate legal structure and security framework could encourage the use of E-payments in Ethiopia. Therefore, a study of banker's perception of electronic banking becomes more relevant (Mohammed, 2014).

Dashen Bank was a forerunner in introducing E-banking in Ethiopia. Merchant acquiring is an integral part of card payment transactions processing. Acquirers enable merchants to accept card payments by acting as a link between merchants, issuers, and payment networks—providing authorization, clearing and settlement, dispute management, and information services to merchants. Therefore, the researcher examined the role and impact of merchant acceptance towards banks profitability in the case of dashen bank.

1.2. BACKGROUND OF THE COMPANY

The new economic policy introduced in November, 1991 caused the culmination of the command economic heralding the establishment of a market oriented one this policy change created an opportunity and a conducive environment for the emergence of private financial institutions aimed at the bringing of a meaningful economic role in the development efforts of the country.

Dashen Bank was established as per the intent of the new policy and the Ethiopian investment code. It came into existence on September 20, 1995 according to the commercial code of Ethiopia 1960 and the licensing and supervision of banking business proclamation No. 84/1994.

The first founding members were 11 businessmen and professional that agreed to combine their financial resources and expertise to form this new private bank. The rationale behind its name " Dashen Bank".

"Ras Dashen" is the highest mountain of Ethiopia. It is also the habitat of rare wild animals; the Wali Ibex, the Gelada Baboon, and the Lammergeyer - the beautiful bone breaker eagle. These unique characteristics of the mountain coincided with the interest of the founders of the Bank and prompted them to adopt this great name and epitomize their aspiration. Rightly, reaching the top of banking business in dynamic and competitive business environment symbolized the highest peak, while the unique and efficient services the bank caters for the public through state-of-the-art computer technology and carefully selected and trained man-power equated with the rare wild animals. Today, indeed, reliability, efficiency and modernity are the hallmark and the bank's distinguishing features which make them synonymous with Dashen Bank as much as the rare animals are synonymous with Ras-Dashen Mountain.

1.2.1. VISION OF THE BANK

As much as mountain Dashen excels all other mountains in Ethiopia, Dashen continue to prove unparalleled in banking services.

1.2.2. MISSION OF THE BANK

Provide efficient customer focused Domestic and international banking services by overcoming the continuous challenges for excellence through an application of appropriate technology.

1.2.3. VALUE OF THE BANK

Develop banking habit in the community, assist continues growth of customer, sustainable growth and stability, highly integrity and accountability, esteemed customer satisfaction, nonstop openness for community accesses attain customers' constructive outlook.

1.3. STATEMENT OF THE PROBLEM

It is the hard fact that now a day's Ethiopian Banking Business are suffering from intense competition, where each players in the industry are working hard towards bringing new products and services that makes them unique. In spite of this, Dashen Bank is one of the pioneering private banks that launch electronic payment card services in the history of banking in Ethiopia. One of the services among the e-banking is the merchant acquisition services that Dashen Bank provides to its merchants, which spread across the length and breadth of the county.

Merchant Service Section is one of the sections that are found in Electronic Banking Service Department of Dashen Bank. In this section there are three main tasks would takes places. These are: Signing the new merchants, Installation and Activation.

The first function of acquirers is to sign-up merchants to accept card-based payments .Signing means attracting new customers to be a merchant of Dashen Bank. To be a merchant of the bank the merchant officer first do the site inspection it includes (Merchant name, contact person name, address and telephone) Persons interviewed about the nature of business, business location details (Business Name, Address, ownership (owned, rented), business hour details (Monday to Friday, Saturday or Sunday). In addition to this opening an account in one of the dashen area bank and renewed license is the two basic requirements. Installation means giving the POS terminal to those new merchants without any payment. At the time of the installation the machine put without any payment, giving full training to the staff of that business plus other persons by the interest of the owner, giving POS receipt any time this is also free of any payment and giving a refreshment training whenever to the new staff or when the existing staff may forget how to operate. Finally Activation means the merchant service sections staff visited all the merchants regularly. Two of the main categories of merchants are Active and Inactive merchants. Active merchant means the merchants who are a regular card transactions and Inactive merchants are merchants

who didn't have card transactions at a minimum of three months and above. The merchants may be inactive because of the following two reasons. The first one may be the problem is on their own side that is may be the cashier or the receptionist is new and don't know how to operate the machine so when cardholder comes to her/his they said the machine is not working, some owner want to add surcharge this is a big crime, because the commission should be covered by the merchant itself not from the customer of the merchant, for the customer whether he/she pay in card is equivalent to cash for the customer the goods he/she bought and/or the service he/she got not add any value by paying in card . The second one may be problem from the bank side; the bank might not give urgent support evenif the merchant called many times to the support sections, if the application not updating ontime on the machine if the merchant forget the operation and the machine is defective.

Merchant is not required to pay anything towards cost of terminal. POS terminal installed absolutely free of cost. The cost for procurement of terminal and also the maintenance of terminal is borne by the Bank.

The general term merchant services were used to describe the activities undertaken by merchant acquirers. In essence, these activities may be seen as the services rendered by the acquirer that enabled merchants to accept their customers' payment cards at the POS terminals.

All the above functions of merchant acquisition were done for the mutual benefit of both the merchant acquirer, which is in this case Dashen Bank and for the merchants as well. The Bank benefited from having a commission income from each sale conducted on POS terminals and at the same time the merchant also benefited from conducting cashless transaction which if free from any kind of theft and also from boosting their sales through attracting customers exposed to such payment modality.

The existence, growth and survival of a business organization mostly depend upon the profit which an organization is able to earn. It is true that when Profitability increases the value of shareholders may increase to considerable extent. The term profitability refers to the ability of the business organization to maintain its profit year after year. The profitability of the organization definitely contributed to the economic development of the nation by way of providing additional employment and tax revenue to government exchequer. Moreover, these contributed the income of the investors by having a higher dividend and thereby improve the standard of living of the people.

The contribution of merchant acquisition in supporting the profitability of the bank was found to be paramount in this regard. So that dashen bank should work hard towards increasing merchant services in order to get the appreciable chunk of the market.

In the rapidly changing global payments landscape, merchant acquirers face different challenges, which seriously affect the contribution of the merchant services in generating profit to the bank. Some of the key

challenges for the smooth running of electronic payment in the case of dashen bank includes: infrastructure (i.e. the frequent power interruption or lack of reliable power supply), lack of awareness (i.e benefits of the new technologies and fear of risk), lack of confidence (i.e. unsecured e-payment system may not get trust from its users), behavioral constraints (i.e. The fact that most of the society is cash-based, people are accustomed to using cash for most of their transactions), and the emerging of new competitor banks.

The total effect of all the aforementioned challenges brings down the contribution of merchant acquisition to the general profit generation of the Bank. Flourish

1.4. RESEARCH QUESTION

Based on the problem defined so far under the statement of the problem, the researcher would intend to give answer to the following basic research questions:

1. How merchant acquisitions enhance the profitability of Dashen Bank?
2. What are the major challenges of merchant acquisition function in DashenBank?

1.5. RESEARCH OBJECTIVES

1.5.1. GENERAL OBJECTIVES

The general objective of this research examined the role and impact of merchant acceptance towards enhancing the profitability of Dashen Bank.

1.5.2. SPECIFIC OBJECTIVES

The research would have the following specific objectives:

- Examined the contribution of merchant acquisition on profitability of the bank, by analyzing the past eight year's merchant commission data of dashen bank.

- Assessed the confidence level of the merchants on the feature of the merchant services specifically on POS terminal by evaluating the merchant's responses on the questionnaire.

- Identified whether or not adequate awareness creation mechanism and extensive training were used to enhance merchant's capability in processing sales transaction via POS in Dashen bank.

1.6. SIGNIFICANCE OF THE STUDY

The study examined the role and impact of merchant acceptance towards enhancing bank's profitability in the case of dashen bank. The outcome of this study would have potential value to the financial institutions, mainly banks to recognize the challenges and opportunities of electronic payment related with merchant acceptance in providing service to their customers. Moreover this study expected to help other researchers who were interested to conduct further study regarding the merchant acceptance in the Ethiopian context about which there is little known before.

1.7. SCOPE OF THE STUDY

Although electronic payment system is a general concept, this study would be limited to focus on the merchant transaction on POS terminal only. Specifically the researcher would focus on city merchants only (Merchants in Addis Ababa only). Therefore this study would create an opportunity to obtain feedback from the internal: Top Management, Merchant Service Section Officers, eight years Document Analysis and Prominent Merchants from the external.

1.8. DEFINITION OF TERMS

Acquirer (Card Acquirer): In point-of-sale (POS) transactions, the entity (usually a credit institution) to which the acceptor (usually a merchant) transmits the information necessary in order to process the card payment (ECB, 2009).

American Express**:** Also known as AMEX, this company is one of the main international credit card issuing schemes. It issues its own credit cards—unlike Visa and MasterCard—and is responsible for its own relationships with retailer.

Automated Teller Machine (ATM): an interactive terminal with a touch screen or keypad that allows consumers with credit cards or debit cards to withdraw cash check balances and/or make deposits using the magnetically encoded card to perform transactions. Most ATMs are interconnected via networks, allowing consumers to conduct banking or credit card business anywhere in the world.

Bank Identification Number (BIN): The first six digits of a Visa or MasterCard account number. This number is used to identify the card-issuing institution.

Card (Payment Card): is a device that can be used by its holder to pay for goods and services or to withdraw money (ECB, 2009).

Cardholder: is a person to whom a payment card is issued and who is authorized to use that card (ECB, 2009).

Card Issuer: is a financial institution that makes payment cards available to cardholders, authorizes transactions at point-of-sale (POS) terminals or automated teller machines (ATMs) and guarantees payment to the acquirer for transactions that are in conformity with the rules of the relevant scheme (ECB, 2009).

Cash Advance**:** A cash loan from a credit card using an ATM or bank withdrawal.

Charge Card: A payment card that requires a full payment of the charge each billing cycle by the statement due date. Unlike credit cards, which give borrowers a revolving line of credit that can be accessed and paid down over time, charge cards do not allow balances to be carried forward and do not charge an interest rate. American Express began as a charge card and continues to offer these types of products (like the Green, Gold and Platinum American Express cards) in addition to general use credit cards.

Chargeback Period: The number of days from the transaction's processing date or endorsement date, during which the issuer may initiate a chargeback.

Chip Card (Smart Card): a card with an embedded microprocessor (chip) loaded with the information necessary to enable payment transactions (ECB, 2009).

Debit Card: A type of payment card used for transactions carrying one of the major association brands that is linked directly to a customer's bank demand deposit account. ATM and some point of sale transactions require input of a four digit personal identification number, while other transaction may require a customer's signature. Debit card transactions don't involve credit, but rather transfer money directly from the customer's checking account to pay for the product or service involved.

Expired Card: A card on which the embossed, encoded or printed expiration date has passed.

Floor Limit: An amount that Visa and MasterCard have established for single transactions at specific types of merchant outlets and branches, above which authorization is, required.

Fraud Alert: A security alert placed on a credit card account or credit bureau listing by either the customer of the issuer when an fraudulent account activity is either experienced or suspected also known as a credit freeze.

Fraudulent Transaction: A transaction unauthorized by the cardholder of a bankcard. Such transactions are categorized as lost, stolen, not received, issued on a fraudulent application; counterfeit, fraudulent processing of transactions, account takeover or other fraudulent conditions as defined by the card company or the member company.

Magnetic Stripe: A stripe of magnetic information that is affixed to the back of a plastic credit or debit card. This stripe contains customer and account information that is required to complete electronic financial transactions.

MasterCard**:** MasterCard is a global bank card payments brand and network that provides its services to banks and merchants.

MasterCard Acquirer: A member that signs a MasterCard merchant agreement or disburses currency to a MasterCard cardholder in a cash disbursement, and directly or indirectly enters the resulting transaction receipt into interchange.

MasterCard Card: A card that bears the MasterCard symbol, enabling a MasterCard cardholder to obtain goods, services or cash from a MasterCard merchant or acquirer.

MasterCard Issuer: A member that issues MasterCard cards.

Merchant: An entity that contracts with merchant banks or ISO's to originate transactions.

Merchant Agreement: A written agreement between a merchant and a bank that contains their respective rights, duties and warranties, with respect to acceptance of the bankcard and matters related to the bankcard activity.

Merchant Service Charge (MSC): A fee paid by the acceptor/merchant to the acquirer (ECB, 2009)

Offline Card Transaction: A Card Transaction which is authorized without contacting the issuer at the time of the transaction (ECB, 2009).

Online Card Transaction: A card transaction which is authorized following explicit approval by the issuer at the time of the transaction (ECB, 2009).

Point-Of-Sale (POS) Terminal: A device allowing the use of payment cards at a physical (not virtual) point of sale. The payment information is captured either manually on paper vouchers or by electronic means (ECB, 2009).

Primary Account Number (PAN): The number that is embossed and/or encoded on a plastic card that identifies the issuer and the particular cardholder account.

Processing Date: The date on which the transaction is processed by the acquiring bank.

Smart Card: A plastic card containing a computer chip with memory and CPU capabilities. Such a card may be used for identification or to store information, financial amounts or other forms of data also called an integrated circuit card or a chip card.

Visa Card**:** A card that bears the Visa symbol and which enables a Visa cardholder to obtain goods, services or cash from a Visa merchant or acquirer.

Visa Issuer: A member that issues Visa Cards.

Visa Merchant: A merchant that displays the Visa symbol and accepts all Visa cards.

1.9. ORGANIZATION OF THE STUDY

This research would be organized into five main chapters as described below:

CHAPTER 1: This chapter gives an overview of the whole research.

CHAPTER 2: This chapter provides an overview of existing literature on Electronic Payment Systems.

CHAPTER 3: Provides details of Methodology in performing this research.

CHAPTER 4: Provides research findings and analysis will be obtained through this methodology.

CHAPTER 5: Presents summary of findings, conclusions and Recommendation.

CHAPTER TWO

2.0. LITERATURE REVIEW

2.1. INTRODUCTION

The revolution of e-payment as captured by Benjamin Graham (2003) in his work "Evolution of Electronic Payment" started in 1918, when the Federal Reserve Bank first moved currency via telegraph. However, it was not until the Automated Clearing House (ACH) was set up by the U.S Federal Reserve in 1972 that electronic currency became widespread. This provided the U.S treasury and commercial banks with an alternative to processing cheque. Following this development, researchers over the world have undertaken research, symposia, journal articles, and lectures to evaluate the system of e-payment. Early work by Ferguson (2000) looks at how businesses and existing industries can be improved or enhanced by using the internet or electronic devices (Haruna, 2012).

Using the Federal Reserve's 1995 Survey of Consumer Finances (SCF), Snorckel and Kwast (1995) analyzed the effect of demographic characteristics on the likelihood of e-payment instrument usage by households. Humphrey and Hancock (1997) have provided an extensive survey of the payment literature. Carrow and Stanten (1999) used a logistic regression model to investigate preferences of consumers for debit cards, credit cards and cash for gasoline purchase. In addition, the work by Vartanian (2000) looked at the future of e-payments. The e-payment literature does not pertain only to Europe. The work done by Balachandher et al. (2000) looked at e-banking in Malaysia. Joshua Abor (2004) researched on technological innovation and banking systems in Ghana. As evidenced by Balachandher et al. (2000) and Joshua Abor (2004), technological advancement has revolutionized e-banking in Asia and Africa since people in these areas have embraced e-banking services which have contributed positively to the growth of the banking industry (Haruna, 2012).

A number of works have also concluded that information technology has appreciable positive effect on banking productivity; casher's work, banking transactions, bank patronage, bank services delivery and customer services (Balachandher et al. 2001; Hunter, 1991; Yasuharu, 2003). In effect, it enhances savings mobilization and financial intermediation. Efficient payment systems rely on non-cash payments and an efficient and reliable payment system facilitates economic development (Annon, 2003). Furthermore, the work by David Bounie and Pierre Gaze (2004) looked at payment and internet issues. Baraghani (2004) also examined factors influencing the adaption of internet banking. Their works revealed that, consumers' behaviors are consistent with their preferences, which vary but may include convenience, incentives, control, privacy, security, and personal involvement. The study showed that, one

of the significant impacts pertaining to payment instrument choice on consumer decision-making is consumers' financial positions and the nature of specific transactions and banks need to play a leading role in influencing the perception and thereby the attitude and behavior of current and potential internet banking users respectively (Haruna, 2012).

In today's world many people across the globe make payments electronically rather than in person or cash. Vassiliou (2004) defines electronic payment as a form of financial exchange that takes place between the buyer and seller facilitated by means of electronic communication. According to (Cobb, 2004), the value of electronic payment goes way beyond the immediate convenience and safety of cards to a greater sphere of **c**ontributing to overall economic development (Delali, 2010).

It is important to note that new payment types are continually being discovered and there are additional methods that exist or are being continuously developed. Some common types of e-payment systems are cards (ATM, electronic purses/wallets, electronic funds transfer at point of sale, credit cards, debit cards, smart cards.), mobile money transfer, internet payment, and electronic cheque. Major security, infrastructure, legal, regulatory and socio-cultural challenges have characterized the e-payment systems. In Africa, e-payment is characterized by widespread challenges. Poor telecommunications infrastructure, limited readiness by banks, behavioral constraints, inadequate legal and regulating framework, low level of credit card access are among the constraints that have hindered the progress of e-payments (Haruna, 2012).

In most African countries the required infrastructure, legal and regulatory framework for electronic payments are lacking (Taddesse & Kidan, 2005). In particular, e-payments infrastructure such as internet and mobile networks are not widely available in Africa. Moreover, banks and other financial institutions are not adequately automated to enable e-banking and e-payment (Kumaga, 2010). In an article entitled "Digital Money in a Digitally Divided World" Bassey (2008) revealed the challenges to the adoption of e-payment systems in Africa. The author put the challenges into three categories namely "…the infrastructure, regulatory, cultural-cum-human dimensions". In the author's view the infrastructural challenge is the most paramount. Infrastructural challenges relate to ICT accessibility, affordability, networks, connectivity and usage. Related to these are issues of interconnectivity network failure, low bandwidth, high cost of connectivity, and frequent power outage. This presupposes that the future of e-commerce in Africa is intrinsically linked with investments in IT infrastructure. This undoubtedly requires African governments and other stakeholders to invest hugely in IT infrastructure and to create conducive environment for the same (Haruna, 2012).

The rapidly growing information and communication technology (ICT) is knocking the front-door of every organization in the world, where Ethiopian banks would never be exceptional. In the face of rapid expansion of electronic payment (E-payment) systems throughout the developed and the developing world, Ethiopian's financial sector cannot remain an exception in expanding the use of the system (Gardachew, 2010). Technological innovations play a crucial role in banking industry by creating value for banks and customers, that it enables customers to perform banking transactions without visiting a brick and mortar banking system. On the other hand E-banking has enabled banking institutions to compete more effectively in the global environment by extending their products and services beyond the restriction of time and space (Turban 2008). However, mirroring the development of E-commerce, the adoption and diffusion of electronic banking (E-banking) system is not well developed in Ethiopia (Ayana, 2012).

As it is stated in different e-banking literature some of the problems related with adoption of E-banking are: Low level of internet penetration and poorly developed telecommunication infrastructure. According to (Jensen, 2003), most countries in Africa, except South Africa, have Internet infrastructure only in their major cities. Lack of suitable legal and regulatory framework for E-commerce and E-payment is another impediment for the adoption of new technology in banking industry. Ethiopia has not yet enacted legislation that deals with E-commerce concerns including enforceability of the validity of electronic contracts, digital signatures and intellectual copyright and restrict the use of encryption technologies and High rates of illiteracy. Low literacy rate is a serious impediment for the adoption of E-banking in Ethiopia as it hinders the accessibility of banking services. For citizens to fully enjoy the benefits of E-banking, they should not only know how to read and write but also possess basic ICT literacy (Gardachew, 2010). But risks related with security issue, lack of competition among local & foreign banks and social awareness on the E-banking system were not addressed (Ayana**,** 2014).

In order to encourage further E-banking adoption in developing countries, a better understanding of the barriers and drivers impacting E-banking adoption is critical (Zhao et al. 2008). By gaining an in-depth understanding of the factors and conditions that influence developing country's ability to fully adopt and realize its benefits, strategic implications can be generated for the researchers and practitioners regarding how to promote the growth of E-banking in the developing countries. However, despite the importance of these adoptions, limited studies are currently available in developing countries, especially in Ethiopia. Therefore, more studies are still required to understand the relevance of E-banking in the country to identify areas in which the country lags behind that inhibit their E-banking adoption and diffusion. Therefore, to address the current gap in the literature, this study is designed to identify the E-banking adoption situation in Ethiopia and commonly focusing on the investigation of factors that affect adoption of E-banking system (Ayana, 2014).

2.2. DEFINITION OF E-BANKING

E-banking has a variety of definitions all refer to the same meaning, the. E-banking is a form of banking service where funds are transferred through an exchange of electronic signal between financial institutions, rather than exchange of cash, checks, or other negotiable instruments (Kamrul 2009). E-banking, also known as electronic funds transfer (EFT), is simply the use of electronic means to transfer funds directly from one account to another, rather than by check or cash (Malak 2007)**.**

The term of E-banking often refers to online banking/Internet banking which is the use of the Internet as a remote delivery channel for banking services (Furst & Nolle, 2002). With the help of the internet, banking is no longer bound to time or geography. Consumers all over the world have relatively easy access to their accounts 24 hours per day, seven days a week (Ayana, 2012).

Another definition of E-banking is that .``E-banking is the use of a computer to retrieve and process banking data (statements, transaction details, etc.) and to initiate transactions (payments, transfers, requests for services, etc.) directly with a bank or with other financial service provider remotely via a telecommunications network‟‟‟‟ (Yang, 1997). It should be noted that electronic banking is a bigger platform than just banking via the internet (Ayana, 2012). .

E-banking can be also defined as a variety of platforms such as internet banking or (online banking), TV-based banking, mobile phone banking, and PC (personal computer) banking (or offline banking) whereby customers access these services using an intelligent electronic device, like PC, personal digital assistant (PDA), automated teller machine (ATM), point of sale (POS), kiosk, or touch tone telephone (Alagheband, 2006). Different forms of E-banking system were discussed as follows (Ayana, 2012).

- **Automated Teller Machines (ATM) -** It is an electronic terminal which gives consumers the opportunity to get banking service at almost any time. To withdraw cash, make deposits or transfer funds between accounts, a consumer needs an ATM card and a personal identification number (Ayana, 2012). .

- **Point-of-Sale Transfer Terminals (POS) -** The system allows consumers to pay for retail purchase with a check card, a new name for debit card. This card looks like a credit card but with a significant difference. The money for the purchase is transferred immediately from account of debit card holder to the store's account (Malak 2007).

- **Internet / extranet banking-** It is an electronic home banking system using web technology in which Bank customers are able to conduct their business transactions with the bank through personal computers (Ayana, 2012).

- **Mobile banking-** Mobile banking is a service that enables customers to conduct some banking services such as account inquiry and funds transfer, by using of short text message (Ayana, 2012).

2.3. THE EVOLUTION OF E- BANKING SYSTEM

Electronic innovation in banking industry can be traced back to 1970, when the computerization of financial institutions gained momentum (Malak 2007**)**, however; a visible presence of this was evident to the customers since 1980, with the introduction of ATM (Ayana, 2014).

Innovative banking has grown since then, aided by technological developments in the telecommunications and information technology industry. The early decade of the 1990s witnessed the emergence of automated voice response (AVR) technology. By using the AVR Technology, banks could offer telephone banking facilities for financial services. With further advancements in technology, banks were able to offer services, through PC owned and operated by costumers at their convenience, through the use of intranet propriety software. The users of these services were, however, mainly corporate customers rather than retail ones (Sohail & shanmugham 2003). The security first network bank was the first Internet banking in the world that was built in 1995 in USA. After that some famous banks introduced their internet banking one after another, such as Citibank and bank of America (Ayana, 2014).

2.4. E-BANKING SYSTEM IN ETHIOPIAN BANKING INDUSTRY

The term electronic banking can be described in several ways. In very simple terms it means the provision of information or services by a bank to its customers, via a computer, television, telephone, or mobile phone. It as an electronic connection between bank and customer in order to prepare, manage and control financial transactions (Mohaammed, 2014). Furthermore, electronic banking is said to have three different means of delivery: telephone, PC, and the Internet. Daniel (1999), for example, introduces four different channels for electronic banking: PC banking, Internet banking, managed network, and TV-based banking (Mohaammed**,** 2014).

Electronic banking is the newest delivery channel in many developed countries and there is a wide agreement that the new channel will have a significant impact on the bank market (Mohaammed, 2014).

According to Nehmzow (1997) Internet banking offers the traditional players in the financial services sector the opportunity to add a low cost distribution channel to their numerous different services (Mohaammed, 2014).

The appearance of E-banking in Ethiopia goes back to the late 2001 EC, when the largest state owned, commercial bank of Ethiopia (CBE) introduced ATM to deliver service to the local users. In addition to eight ATM Located in Addis Ababa, CBE has had Visa membership since November 14, 2005. But, due to lack of appropriate infrastructure it failed to reap the fruit of its membership. Despite being the pioneer in introducing ATM based payment system and acquired visa membership, CBE Lagged behind Dashen bank, which worked aggressively to maintain its lead in E-payment system. As CBE continues to move at a snail's pace in its turnkey solution for Card Based Payment system, Dashen Bank remains so far the sole player in the field of E-Banking since 2006. (Gardachew 2010) Dashen bank, a forerunner in introducing E-banking in Ethiopia, has installed ATMs at convenient locations for its own cardholders (Ayana, 2014).

Available services on Dashen Bank ATMs are: Cash withdrawal, Balance Inquiry, Mini statement, Fund transfer between accounts attached to a single card and Personal Identification Number (PIN) change. Dashen bank clients can withdraw up to 5,000 birr in cash and can buy goods and services up to 8,000 to 13,000 birr per day (Ayana, 2012).

By the end of 2008 Wegagen Bank has signed an agreement with Technology Associates (TA), a Kenyan based information technology (IT) firm, for the development of the solutions for the payment system and installation of a network of ATMs on December 30, 2008. Zemen Bank, the only Ethiopian bank anchored in the idea of single branch banking, by launching full-blown internet banking, a service which is new to Ethiopian banking industry in the year 2010. The bank tested the venture through its first phase of the online service, and now it is already started the full-fledged version, which enable customers to make online money transfer freely. Previously, the online banking service, delivered by the bank, only gave access to bank statements and exchange rate information. The new and never-been-tried service proposed by the bank is to include free account money transfer, corporate payroll uploading system where employers could upload payroll to the system and make payments to individual worker's accounts online and online utility bill settlement system, when utility companies are ready (Asrat, 2010).

The agreement signed by three private commercial banks to launch ATM and POS terminal network, in February 2009 is welcoming strategy to improve electronic card payment system in Ethiopia. Three private commercial banks - Awash International Bank S.C., Nib International Bank S.C. and United Bank S.C. have agreed in principle to establish an ATM network called Fettan ATM network. If everything goes as planned, Fettan ATM will install over 140 ATM machines and over 340 POSs across Ethiopia. There will be one ATM at every branch of the consortium banks, all domestic airports serviced by

Commercial service, shopping complexes and merchants. The agreement is the first significant cooperation between competing banks in Ethiopia, which others should be encouraged to follow as there is no single bank in Ethiopia that can afford to provide Extensive geographical coverage and access (Binyam 2009).

2.5. CHALLENGES OF ADOPTING E-BANKING IN ETHIOPIA

According to Gardachew (2010) Ethiopian banking industry faces numerous challenges to adopt E-banking system and grab the opportunities presented by ICT applications in general. The Key Challenges for E-banking applications are: (Ayana, 2012).

- Low level of internet penetration and poorly developed telecommunication infrastructure: - Lack of infrastructure for telecommunications, Internet and online payments impede smooth development and improvements in e-commerce in Ethiopia. Most rural areas of the country, where the majority of small and medium businesses are concentrated, have no Internet facilities and thus are unable to engage in e-commerce activities.

- Lack of suitable legal and regulatory framework for e-commerce and e-payment:-Ethiopian current laws do not accommodate electronic contracts and signatures. Ethiopia has not yet enacted legislation that deals with e-commerce concerns including enforceability of the validity of electronic contracts, digital signatures and intellectual copyright and restrict the use of encryption technologies.

- Political instabilities in neighboring countries: -Political and economic instabilities in Somalia, Southern Sudan, and Eritrea are threatening traits that do not provide a very conducive environment for e-banking in Ethiopia. Political instabilities inevitably disturb smooth operations of business and free flow of goods and services.

- High rates of illiteracy:-Low literacy rate is a serious impediment for the adoption of E-Banking in Ethiopia as it hinders the accessibility of banking services. For citizens to fully enjoy the benefits of E- Banking, they should not only know how to read and write but also possess basic ICT literacy.

- High cost of Internet:-The cost of Internet access relative to per capita income is a critical factor. Compared to the developed countries, there are higher costs of entry into the e-commerce market

in Ethiopia. These include high start-up investment costs, high costs of computers and telecommunication and licensing requirements.

- Absence of financial institutions networks that links different banks (Banks are not yet automated):-Most of the banking-transactions currently taking place use credit and debit cards supplied by Visa and MasterCard. For conducting e-banking, the use of credit or debit cards is mandatory thus requiring the need for specialized systems which are not currently available.

- Frequent power interruption: -Lack of reliable power supply is a key challenge for smoothly running E-banking in Ethiopia.

2.6. FEATURES AND BENEFITS OF E-PAYMENTS

All e-payment methods share a number of common characteristics. These are: independence, interoperability and portability, security, anonymity, divisibility, ease of use, and transaction fees. Independence refers to the ability of e-commerce methods to operate without installing specialized software. Interoperability y and portability refers to the ability of forms of e-commerce to interlink with other enterprise applications and systems. Security is an important consideration that encompasses the safety of the transfer and the chance of the transfer being intercepted (Gardachew**,** 2010).

E-cards offer a number of benefits to the issuing banks and customers of the bank including: dramatically reduce printing, mailing, and financial handling costs associated with processing transaction, enhance payment security by minimizing theft or loss, reduce undeliverable payments via electronic delivery to the card account, prevent fraud through automated controls, increase customer satisfaction and enhance service to constituents, ensure continuity of service to cardholders in emergency or disaster situations and improve operational efficiency and profitability of the issuing banks (Gardachew**,** 2010).

According to a study by (Fiallos & Wu), the arrival of the internet has taken electronic payments and transactions to an exponential growth level. Consumers could purchase goods from the internet and send unencrypted credit card numbers across the network, which did not provide much security and privacy. But a wide variety of new secure network payments schemes have been developed as consumers became more aware of their privacy and security (Delali, 2010).

Automated electronic payments help deepen bank deposits thereby increasing funds available for commercial loans – a driver of all of overall economic activity. According to (Cobb, 2005), efficient safe and convenient electronic payments carry with them a significant range of macro-economic benefits. “The

impact of introducing electronic payments is akin to using the gears on a bicycle. Add an efficient electronic payments system to an economy, and you kick it into a higher gear. Add better-controlled consumer and business credit, and you notch up economic velocity even further" (Cobb, 2005).

"While the high level of cash transactions creates an opportunity for the electronic payment industry, it also imposes a cost on local economies. Cash has to be minted, securely transported, counted and reconciled, kept secure and maintained for re-use time and time again. The per-payment cost is high, and will always remain high whereas the costs of electronic system are fixed. Once the infrastructure has been built, the costs per-transaction is very low" (Cobb, 2005).

When cardholders use their cards at the point of sale they are helping to keep money in the banking system. EPS can help displace shadow economies, bring hidden transactions into the banking system and increase transparency, confidence and participation in the financial system (Cobb, 2005).

As also mentioned by (Al Shaikh, 2005), there is a correlation between increase in point of sales volumes and rise in demand deposits. "Automated electronic payments act as a gateway into the banking sector and as a powerful engine for growth. Such payments draw cash out of circulation and into the bank accounts, providing low cost funds that can be used to support bank lending for investment – a driver of overall economic activity. The process creates greater transparency and accountability, leading to greater efficiency and better economic performance" (Al Shaikh, 2005).

In a similar narrative by (Hord, 2005) electronic payment is very convenient for the consumer. In most cases, you only need to enter your account information -- such as your credit card number and shipping address -- once. The information is then stored in a database on the retailer's Web server. When you come back to the Web site, you just log in with your username and password. "Completing a transaction is as simple as clicking your mouse: All you have to do is confirm your purchase and you're done" (Hord, 2005).

Hord (2005) further emphasizes the fact that electronic payment lowers costs for businesses. The more payments that is processed electronically, the less money is spent on paper and postage. Offering electronic payment can also help businesses improve customer retention. "A customer is more likely to return to the same e-commerce site where his or her information has already been entered and stored" (Hord, 2005).

According to (Cobb, 2005), "electronic payments can thus lower transaction costs stimulate higher consumption and GDP, increase government efficiency, boost financial intermediation and improve financial transparency". She further added that "Governments play a critically important role in creating

an environment in which these benefits can be achieved in a way consistent with their own economic development plans" (Delali, 2010).

(Humphrey et al, 2001) also support the fact the introduction and use of electronic payment instruments holds the promise of broad benefit to both business and consumers in the form of reduced costs, greater convenience and more secure, reliable means of payment and settlement for a potentially vast range of goods and services offered worldwide over the internet or other electronic networks. One such benefit is that electronic payments enable bank customers to handle their daily financial transactions without having to visit their local bank branch. Electronic payments products could save merchants time and expense in handling cash (Delali, 2010).

According to (Humphrey, Pulley and Vesala 2000), the resource cost of a nation's payment system can account for 3 % of its GDP. Since most electronic payments cost only about one-third to one-half as much as paper-based non-cash payment, it is obvious that the social cost of a payment system could be considerably reduced if it is automated (Appiah and Agyemang, 2007). Automating and streamlining electronic payments made from self-serve channels such as ATMs, branch office terminals and point-of-sale (POS) systems can reduce paper-based errors and costs (Delali, 2010).

2.7. BENEFIT OF E-BANKING FOR BANKS

It should be noted that E-banking can bring about various benefits for banks and their customers as well. It is obvious that cost savings, efficiency, gaining new segments of customers, improvement of the bank's reputation and better customer services and satisfaction are primary benefits to banks (Jayawardhena & Foley, 2000).

Under the view of Robinson (2000), relevant costs for conducting a banking transaction via online are much lower than via a brick and mortar branch. Moreover, Sheshunoff (2000) contends that one of the most important factors influencing the adoption of E-banking by banks is the need to build up strong barriers to customer exiting. Under the view of the author, once customers become familiar with the utilization of full service E-banking, it is unlikely that they will change to another financial institution (Ayana, 2012).

Such an argument can be supported by the consumer behavior theory that switching costs are often very high in terms of time and efforts by consumers. Finally, the author emphasizes that the implementation of E-banking can bring about many competitive advantages for banks in today's highly competitive banking market (Ayana, 2012).

A research on E-banking has been carried out in Denmark by Mols (1998). The author argues that E-banking can play an important role in enhancing cross-selling and price differentiation. E-banking can

make favourable conditions for banks to provide customers numerous services 24 hours a day and 7 days a week. E-banking can improve customer satisfaction with the bank due to the fact that it makes customers less price sensitive, and improve their intention to repurchase, and more loyalty to the bank via providing more positive words of mouth about the bank than other bank customers (Ayana, 2012).

2.8. BENEFIT OF E-BANKING FOR CUSTOMERS

It should be noted that E-banking is not only brings about benefits to banks but also to their customers. Thanks to the emergence of the Internet, banking transactions are no longer limited to time and geography. It is very easy for consumers throughout the world to access to their bank accounts 24 hours per day and seven days a week. Customers can enjoy a variety of services, especially services which are not provided by traditional bank branches (Pham, 2010).

It is argued that one of the greatest benefits that E-banking brings about is that it is not expensive or even free for customers to utilize E-banking products/services. However, some people believe that prices appear to be one factor that is impedimental to the diffusion of E-banking (Sathye, 1999).

The price debates often revolve around geographical differences and disparities between costs of Internet connections and telephone call pricing. It has also been believed that E-banks have been changing to respond to customers‟ increasingly changing demands (Pham 2010). There has been a tendency that customer don't want to travel to or from a bank branch to conduct some banking transactions. In other words, they want to utilize E-banking to save time and money. E-banking can bring about convenience and accessibility, which will have positive effects on customer satisfaction and loyalty (Pham, 2010).

It is totally possible for customers to manage their banking transactions whenever they want and to enjoy improved privacy in their interactions with the bank. In addition, customers can enjoy more benefits at lower cost levels by utilizing E-banking (Mols, 1998).

It is contended by Turban (2008), that E-banking is really beneficial to customers in terms of cost savings, no limit on time and space, quick response to customer complaints, and better services/products. Such benefits are believed to elevate customer satisfaction (Ayana, 2012).

2.9. BENEFITS OF E-BANKING TO THE GENERAL ECONOMY

Electronic Banking as already stated has greatly serviced both the public and the banking industry. This has resulted in creation of a better enabling environment that supports growth, productivity and

prosperity. Besides many tangible benefits in the form of reduction of cost, reduced delivery time, increased efficiency, reduced wastage, banking electronically controlled and thoroughly monitored environment and discourage many illegal and illegitimate practices associated with banking industry like money laundering, frauds and embezzlements. Further E-banking has helped banks in better monitoring of their customer base. This is a useful tool in the hand of the bank to device suitable commercial packages that are in conformity with customer needs. As e- banking provide opportunity to banking sector to enlarge their customer base, a consequence to increase the volume of credit creation which results in better economic condition. Besides, E-banking has also helped in documentation of the economic activity of the masses (Mahdi, 2004).

2.10. USING E-PAYMENTS TO REDUCE THE UNBANKED

The emergence of credit, debit and prepaid card systems gives the unbanked an important option for bringing cash into the formal economy. "Prepaid cards are particularly interesting, because the funds are actually on deposit at a regulated financial institution, but the process of establishing and managing accounts is much more cost effective and less risky that traditional debit accounts for smaller levels of deposit" (Commonwealth Business Council & Visa, 2004). Anderson-Porisch (2006) argued that technology provides the opportunities to transition the unbanked population into a banking relationship (Delali, 2010).

2.11. THE BASICS OF MERCHANT ACQUIRING

Merchant acquirers enable merchants to process credit and debit card payments and help in increasing sales by accepting the most popular cards to attract customers to their businesses. Typically, a card payment transaction involves two sides: the first between the cardholder and the bank that issued their card; and the second between the merchant and the acquiring bank. This paper focuses on the second: the merchant acquiring side of the industry. Cardholders only deal with merchants and the issuing bank while performing card transactions; they are not concerned with the merchant acquiring side of the industry. However, this second acquiring side of the industry contains a network of highly advanced intermediaries who handle card transactions via authorization, clearing and settlement, and dispute management (www.capgemini.com/cards).

The role of key intermediaries in a typical card payment transaction is illustrated below: (www.capgemini.com/cards).

- Cardholder uses a card as a payment mode.

- Merchant sends transaction information to the Acquirer by swiping or manually feeding card information.
- The acquirer or third party processor on acquirer's behalf sends the transaction information to the card association.
- The card association sends the transaction information to the issuer for authorization
- Issuing bank pays the card association network once it validates the transaction (after deducting its charge).
- Card association pays the acquirer or processors on acquirer's behalf (after deducting its charge)
- Merchants account is credited for the transaction amount by the processor (after deducting its charge).
- Purchase transaction is completed
- Issuer bills the Buyer for the transaction.
- Buyer settles the bill.

2.11.1. KEY PARTICIPANTS

The acquiring side of the industry typically involves interaction among various stakeholders including merchants, acquirers, processors, independent sales organization (ISO), and payment networks. Each of the stakeholders has an incentive to play its specific role in completing the payment transaction (Capgemini Analysis, 2012).

MERCHANT

A merchant accepts payment from the cardholder by swiping the user's card at its terminal, increasing the chance of a sale by accepting popular cards used by cardholders. For example, retailers such as Walmart who accept these cards have higher chances of sale compared to local retailers without card processing capability (Capgemini Analysis, 2012).

ACQUIRING BANK

The acquiring bank provides payment processing services to the merchant, enabling him to accept payments from cardholders. The bank levies a merchant service charge (MSC) on every transaction at the merchant's point of sale (POS) terminal to generate revenue. The MSC is usually 2% of the transaction amount and contains an interchange fee, the fee paid to card network associations such as Visa and MasterCard, and the acquirer fee (Capgemini Analysis, 2012).

INDEPENDENT SALES ORGANIZATIONS (ISOs)

The ISOs solicit merchant accounts on behalf of acquirers and charge a service-based fee from the acquirers. ISOs also manage risky merchant accounts with a higher possibility of credit fraud, for which they charge a higher fee (Capgemini Analysis, 2012).

THIRD-PARTY PROCESSORS

Third-party processors provide transaction processing services to acquirers as they possess economies of scale and advanced technological systems for cost effective processing. Processors charge a service-based or fixed fee from acquiring banks based on the type of pricing contract(Capgemini Analysis, 2012).

PAYMENT CARD NETWORK PROVIDER (CARD ASSOCIATION)

Card associations, such as Visa and MasterCard, act as the link between the issuer bank and the acquiring bank. The payment card network validates the availability of credit or funds with the issuing bank and communicates the same to the acquiring bank. The payment card network provider charges a fee for each transaction processed through its branded card by the card issuer/acquiring bank (Capgemini Analysis, 2012).

2.11.2. KEY FUNCTIONS

Merchant acquirers help in completing the card payment transaction cycle by ensuring the flow of funds to respective parties. To ensure this flow of funds, acquirers perform four key functions (Capgemini Analysis, 2012).

MERCHANT SIGN-UP

The first function of acquirers is to sign-up merchants to accept card-based payments. Some acquirers outsource this function to ISOs and pay them a fee (Capgemini Analysis, 2012).

After signing up the merchant, the acquirers underwrite the merchants to ensure their financial stability, which is important in checking the credit-worthiness of the merchant. Acquirers at times also provide point-of-sale equipment and other services to the merchants if specified in the merchant agreement (Capgemini Analysis, 2012).

TRANSACTION AUTHORIZATION

Authorizing transactions is a critical function of acquirers as it ensures that the payment is guaranteed and that there will be no dispute in the future settlement. Operationally, when the card is swiped at the merchant's POS terminal, the acquirer receives an authorization request from the terminal. This request contains transaction details such as the cardholder's information and amount of the transaction (Capgemini Analysis, 2012).

The request is forwarded to the card association/network, for example Visa / MasterCard, which in turn validates the availability of funds with the issuing bank. The issuing bank sets aside the funds from the cardholder's account for the transaction and sends an authorization code to the network. The network forwards the code to acquirer and then to the merchant's POS terminal (Capgemini Analysis, 2012).

At this point, the funds are not yet transferred to the merchant's account but the issuing bank agrees for a future settlement with the acquiring bank and, in turn, the merchant. After the authorization is complete, the merchant records the sales transaction information and sends it to the acquirer for processing at the end of the day (Capgemini Analysis, 2012).

CLEARING AND SETTLEMENT

The merchant acquirer transmits the sales transaction data received from the merchant to the respective card-issuing bank via the payment card network. The issuing bank charges the cardholder's account and sends the funds to the acquirer through the payment network, subtracting its fee. The acquirer then credits the merchant's account, after deducting the fees paid to the issuer and the payment network, and the fee for its own services (Capgemini Analysis, 2012).

DISPUTE MANAGEMENT AND INFORMATION SERVICES

Acquirers provide dispute management services including charge-backs, refunds, and claims to the merchants. Further, as a value-added service to the merchants, acquirers compile and report the merchant's transaction data. The acquirers also offer analytical services to merchants to help them to manage and improve their card processing functions and decrease costs (Capgemini Analysis, 2012).

2.12. THE IMPORTANT FUNCTIONS OF MERCHANT BANKING

RAISING FINANCE FOR CLIENTS

Merchant Banking helps its clients to raise finance through issue of shares, debentures, bank loans, etc. It helps its clients to raise finance from the domestic and international market. This finance is used for starting a new business or project or for modernization or expansion of the business (Gaurav, 2011).

BROKER IN STOCK EXCHANGE

Merchant bankers act as brokers in the stock exchange. They buy and sell shares on behalf of their clients. They conduct research on equity shares. They also advise their clients about which shares to buy, when to buy, how much to buy and when to sell. Large brokers, Mutual Funds, Venture capital companies and Investment Banks offer merchant banking services (Gaurav, 2011).

PROJECT MANAGEMENT

Merchant bankers help their clients in many ways. For e.g. advising about location of a project, preparing a project report, conducting feasibility studies, making a plan for financing the project, finding out sources of finance, advising about concessions and incentives from the government (Gaurav, 2011).

ADVICE ON EXPANSION AND MODERNIZATION

Merchant bankers give advice for expansion and modernization of the business units. They give expert advice on mergers and amalgamations, acquisition and takeovers, diversification of business, foreign collaborations and joint-ventures, technology up-gradation, etc. (Gaurav, 2011).

MANAGING PUBLIC ISSUE OF COMPANIES

Merchant bank advice and manage the public issue of companies. They provide following services (Gaurav, 2011):

- Advise on the timing of the public issue.
- Advise on the size and price of the issue.
- Acting as manager to the issue, and helping in accepting applications and allotment of securities.
- Help in appointing underwriters and brokers to the issue.
- Listing of shares on the stock exchange, etc.

HANDLING GOVERNMENT CONSENT FOR INDUSTRIAL PROJECTS

A businessman has to get government permission for starting of the project. Similarly, a company requires permission for expansion or modernization activities. For this, many formalities have to be completed. Merchant banks do all this work for their clients (Gaurav, 2011).

SPECIAL ASSISTANCE TO SMALL COMPANIES AND ENTREPRENEURS

Merchant banks advise small companies about business opportunities, government policies, incentives and concessions available. It also helps them to take advantage of these opportunities, concessions, etc. (Gaurav, 2011).

SERVICES TO PUBLIC SECTOR UNITS

Merchant banks offer many services to public sector units and public utilities. They help in raising long-term capital, marketing of securities, foreign collaborations and arranging long-term finance from term lending institutions (Gaurav, 2011).

REVIVAL OF INDUSTRIAL UNITS

Merchant banks help to revive (cure) sick industrial units. It negotiates with different agencies like banks, term lending institutions, and BIFR (Board for Industrial and Financial Reconstruction). It also plans and executes the full revival package (Gaurav, 2011).

PORTFOLIO MANAGEMENT

A merchant bank manages the portfolios (investments) of its clients. This makes investments safe, liquid and profitable for the client. It offers expert guidance to its clients for taking investment decisions (Gaurav, 2011).

CORPORATE RESTRUCTURING

It includes mergers or acquisitions of existing business units, sale of existing unit or disinvestment. This requires proper negotiations, preparation of documents and completion of legal formalities. Merchant bankers offer all these services to their clients (Gaurav, 2011).

Money market operation: Merchant bankers deal with and underwrite short-term money market instruments, such as:

- Government Bonds.
- Certificate of deposit issued by banks and financial institutions.
- Commercial paper issued by large corporate firms.
- Treasury bills issued by the Government (Here in India by RBI).

LEASING SERVICES

Merchant bankers also help in leasing services. Lease is a contract between the lesser and lessee, whereby the lessor allows the use of his specific asset such as equipment by the lessee for a certain period. The lessor charges a fee called rentals (Gaurav, 2011).

MANAGEMENT OF INTEREST AND DIVIDEND

Merchant bankers help their clients in the management of interest on debentures / loans, and dividend on shares. They also advise their client about the timing (interim/yearly) and rate of dividend (Gaurav, 2011).

2.13. MERCHANT PROCESSING

Merchant acquiring is an integral part of card payment transactions processing. Acquirers enable merchants to accept card payments by acting as a link between merchants, issuers, and payment networks—providing authorization, clearing and settlement, dispute management, and information services to merchants (FDIC, 2007).

Merchant processing is the acceptance, processing, and settlement of payment transactions for merchants. A bank that contracts with (or acquires) merchants is called an acquiring bank, merchant bank, or acquirer. Acquiring banks sign up merchants to accept payment cards for the network and also arrange processing services for merchants. They can contract directly with the merchant or indirectly through agent banks or other third parties (FDIC, 2007).

A bank can be both an issuing bank and an acquiring bank, but banks most often specialize in one function or the other. Merchant processing involves the gathering of sales information from the merchant, obtaining authorization for the transaction, collecting funds from the issuing bank, and reimbursing the merchant. It also involves charge-back processing. The vast majority of merchant transactions are electronically originated (as compared to paper-based) and come from credit card purchases at merchant locations or the point-of-sale (POS). Merchant processing increasingly includes transactions initiated via debit cards, smart cards, and electronic benefits transfer (EBT) products (FDIC, 2007).

2.14. TERMINALS AND POS HARDWARE AND SOFTWARE

2.14.1. TERMINALS

Businesses require terminals to process electronic payments at the POS. A terminal is a mechanism for merchants to be able to accept electronic payments—a device that will capture and transmit card information for processing via card payment brands. There are many standalone terminal providers, including Verifone, Hypercom, and Ingenico. First Data also offers its own line of terminals—the FD Terminal series. Merchants typically look for a terminal that can process all types of transactions from a single source—including credit cards, debit cards, Electronic Benefits Transfer (EBT), gift cards, loyalty cards and checks. Merchants want to find a reliable terminal with ultra-fast processors and communications hardware to make sure transactions are handled quickly and accurately. And they want a terminal that is easy to use with a built-in printer and intuitive touch-screen interface. For merchants who travel or seek to receive payments remotely, there are terminals enabled with wireless technology so they can process transactions no matter where their business takes them (firstdata.com, 2010).

An important thing to look for in a terminal provider is service and support—merchants want someone who can help them configure their terminal and quickly manage any issues that might arise. Look for a provider who offers overnight replacement terminals when there's a technical problem, and a customer service team to call to answer any questions (firstdata.com, 2010).

While small merchants often rely upon terminals to process transactions from beginning to end, larger merchants typically operate POS systems that integrate hardware and software—they use third party POS software that has the ability to send cardholder data to a processor using software embedded in the register. They might have a PC-based solution with an attached peripheral to handle credit and debit card processing. Both solutions require a provider that enables fast, accurate and reliable transaction processing (firstdata.com, 2010).

2.14.2. PERIPHERALS

Peripherals are add-on devices that provide a merchant with additional transaction functionality at the POS. For example, a merchant with a cash register might want to integrate a PIN pad that allows for debit transactions. The addition of a PIN pad would allow consumers to swipe their card and enter their PIN number at the point-of-sale. Other types of peripherals include contactless readers, for merchants that want to offer 'tap and go' functionality. The peripherals are typically compact and are a complement to the existing merchant transaction capabilities (firstdata.com, 2010).

2.14.3. POS SOFTWARE

Increasingly merchants are opting for payment functionality that is embedded within the POS system. This model requires the POS manufacturer's software developers to code to a provider's specifications. Merchant benefits include consolidated reporting across payment types, decreased cashier error (no manual keying of transaction amount into a standalone terminal), and single source provider of the POS system and payment interface. Examples include the IBM ACE Supermarket system, MICROS restaurant POS system, and Radiant's Epsilon petroleum solution (firstdata.com, 2010).

2.14.4. CONNECTIVITY OPTIONS

Merchants can choose from a variety of connectivity options to align with their business needs, including securely accepting all types of credit cards, debit cards, checks and gift cards. Cost, speed and customer convenience are the key factors that drive decisions about which connectivity options make the most sense for a particular merchant (firstdata.com, 2010).

- Dial-up: Dial up service uses your existing phone line. When you are ready to begin a transaction, the terminal uses the phone line to open a call to the processor. It is generally a slower transmission of data, but since every business has a phone line, it is readily available and a low cost solution. If you have multiple terminals at the merchant locations, you will need one telephone line per terminal (firstdata.com, 2010).

- Wireless: This terminal doesn't require a phone landline—you can take the terminal wherever your sales occur. It requires cellular service to transmit a transaction from the "remote" location. The terminal is all encompassing—it typically has a printer and Payment Card Industry PIN Entry Device (PCI PED). This type of terminal is ideal for service industries like delivery services, home services, etc (firstdata.com, 2010).

- IP and VPN: This is a low cost solution that takes advantage of your existing IP network infrastructure. It also offers a low cost, high-speed solution for merchants with an established Internet based infrastructure. Up-time depends on your service provider (firstdata.com, 2010).

- Wi-Fi: The Wi-Fi solution takes advantage of your existing IP infrastructure, so there are no phone lines required. It offers a low cost, high speed solution for a merchant with an established wireless network. It is a bit more complex to maintain and operation is reliant upon an IP

services provider—but if you have a good wireless infrastructure, it is an ideal option (firstdata.com, 2010).

- Dedicated or Leased Lines (aka 'Frame Relay'): This solution provides faster throughput over a regular IP connection. However, it is the most costly option due to the required changes and upgrade to the infrastructure, and requires dedicated technical resources, such as staff and additional hardware. This is commonly used for large, national merchants with high-volume, multi-lane environments (firstdata.com, 2010).

2.15. ELECTRONIC BANKING IN DASHEN BANK

As electronic payment is an innovation to the Ethiopian Banking Industry, Dashen Bank has been trying its level best to lay the ground in a good footing. It installed state of the art technology that was first class in the payment card industry in Ethiopia. Inline with the current requirements of the card associations Dashen Bank started the business being EMV compliant in all aspects of card issuing and transaction acquiring. It is issuing CHIP based (smart) cards and it installed CHIP accepting ATM as well as POS terminals. Thus, the Dashen Bank's electronic payment system is reliable, secure and contemporary.

One of the services in dashen e-banking is POS service it means a service in which the merchant is able to accept any payment using VISA, MasterCard, Union Pay and American Express cards coming from all over the world for payment using the Point of Sale (POS) terminal installed by dashen bank.

Some of the benefits that the dashen merchants would get:

- Since Payments are transferred electronically, your cash handling cost would be reduced.
- It enables you to attract cardholders that in turn increase your customer base.
- It increases your sales volume.
- It reduces risk related to forged notes and bounced checks.
- It enabled you to control daily transaction through POS reports and bank statements.
- Being users of modern way of payment by itself will add a good image for your business.

2.16. EMPERICAL LITERATURE

According to Mohammed shamsuddoha (2008), electronic Banking is transforming the financial services industry through various innovations. The quantity of cross-border trading and other financial activities is increasing geometrically make possible by technology. It has been made possible by technology, particularly information technology to generate, collect and process information about bank operation and bank customers efficiently and effectively (Beza, 2010).

Electronic Banking Systems, in its most proficient form, offer instant verification and transfer and reduces the flow of costly paper in the record keeping process. Application of technology in banking offers opportunity for reduction of both paper and people. Banks have developed electronic banking service for three main reasons (Beza, 2010). .

- To protect and increase market share
- To reduce operating cost by substituting physical capital and technology for labor
- To generate new revenue

Electronic banking allow banks to expand their markets for traditional deposit taking and credit extension activities, and to offer new products and services or strengthen their competitive position in offering existing payment services. In addition, electronic banking could reduce operating costs for banks. More broadly, the continued development of electronic banking and electronic money may contribute to improving the efficiency of the banking and payment system and to reducing the cost of retail transactions nationally and internationally (Beza, 2010).

Gardachew (2010) conducted research on the opportunities and challenges of E-banking in Ethiopia. The aim of his study was focused on analyzing the status of electronic banking in Ethiopia and investigates the main challenges and opportunities of implementing E-banking system. The author conducted a survey on the existing operating style of banks and identifies some challenges of using E-banking system, such as, lack of suitable legal and regulatory frame works for E-commerce and E- payments, political instability in neighboring countries, high rates of illiteracy and absence of financial networks that links different banks (Ayana, 2012).

Wondwossen and Tsegai (2005) also studied on the challenges and opportunities of E-payments in Ethiopia; their objective was studying of E-payment practices in developing countries, Africa and Ethiopia. The authors employs interview and on site observation to investigate challenges to E-payment in Ethiopia and found that, the main obstacles to the development of E-payments are, lack of customers trust in the initiatives, Unavailability of payment laws and regulations particularly for E-payment, Lack of

skilled manpower and Frequent power disruption. According to Wondwossen and Tsegai (2005), an adequate legal structure and security framework could foster the use of E-payments, which was contradicting with the finding of the previous study (Ayana, 2012).

The rapidly growing information and communication technology (ICT) is knocking the front door of every organization in the world, where Ethiopian banks would never be exceptional. In the face of rapid expansion of electronic payment (E-payment) systems throughout the developed and the developing world, Ethiopian's financial sector cannot remain an exception in expanding the use of the system (Gardachew, 2010). Technological innovations play a crucial role in banking industry by creating value for banks and customers, that it enables customers to perform banking transactions without visiting a brick and mortar banking system. On the other hand E-banking has enabled banking institutions to compete more effectively in the global environment by extending their products and services beyond the restriction of time and space (Turban 2008). However, mirroring the development of E-commerce, the adoption and diffusion of electronic banking (E-banking) system was not well developed in Ethiopia (Ayana, 2014).

In general, review of empirical studies showed that understanding the critical success factors (CSFs) in e-banking is important for banking industries because it would potentially help them to improve their e-banking implementation. Even though there was no exact previous studies on the title the role and impact of merchant acceptance towards enhancing bank's profitability but there are some related studies were conducted by different researchers in different parts of the world. Merchant acceptance is one of the functions of e-payment. As a result of this the entire previous researcher's research challenges also the challenges of the bank towards merchant acceptance. The gap identified on this study also help to make for a better decision making. Therefore the detailed review of the research would be briefly discussed in findings.

CHAPTER THREE:

3.0. RESEARCH METHODOLOGY

Ghauri & Gronhaug (2005) distinguishes among three main classes of research design; exploratory, descriptive and casual. In both descriptive and casual research designs the problem is structured and understood. When the research problem is badly understood an exploratory design is adequate. Therefore this research could be classified as descriptive because it was structured and well understood. The key characteristics of descriptive research were structure, precise rules and procedures (Ghauri & Gronhaug, 2005).

3.1. RESEARCH APPROACH

Research approach is selected by researcher based on the research purpose, the nature of the research, the problem area, and research questions (Alhamdani *et al.* 2006). The research approach in this study is chosen based on the purpose and the research questions set out to be addressed. According to Creswell (2003) there are three basic types of research approaches, quantitative, qualitative, and mixed approach. Mixed research approach or pragmatist world view is not committed to any one system of philosophy and reality. In this approach, inquirers draw liberally from both quantitative and qualitative assumptions.

In order to achieve the objective of this study and answer the research questions researcher adopts mixed research approach to examine the Role and Impact of Merchant Acceptance towards enhancing bank's profitability. Employing this approach is used to neutralize or cancel the biases of applying any of a single approach and a means to offset the weaknesses inherent in a single method with the strengths of the other method (Creswell 2003). Mixed research approach opens door to multiple methods of data collection and helps to generate the findings to a population and develop a detailed view of the meaning of a phenomenon or concept for individuals (Creswell, 2003).

3.2. RESEARCH DESIGN

Many good research projects combine both qualitative and quantitative research. For instance, developing valid survey measures requires first a deep understanding of the concept to be measured and a description of the way these ideas are expressed in everyday language. Both of these are tasks best suited for qualitative research. However, validating the measure formally to make sure it can reliably capture the intended concept would likely require quantitative research (Yemane, Taro, 1967).

Considering the aforementioned benefit, the researcher intended to use both qualitative and quantitative research approach with much emphasis on the later. Qualitative data gathered through, interview and

focus group discussion, while the quantitative data obtained from a self-administered structured five scale likert questionnaires and through analyzing the past eight years commission income data of the Bank.

3.3. POPULATION

The participant of the study would be from top level managers and merchant service officers working in the bank and also merchants of the bank who deployed and actively use POS terminals. From the total number of 675 merchants, the researcher focused only on 329 merchants who are active as of June 30, 2014 and they processed at least one transaction on this time. Therefore this showed that 48.74% of the merchants have been active (EBSD report, 2014).

3.4. SAMPLE SIZE AND SAMPLING TECHNIQUES

As it is clearly stated in the above paragraph, the researcher focused on 329 active merchants. Since it was difficult, time taking and costly to conduct a census survey on all of the merchants, the researcher tried to draw a representative sample that enables to make generalization. Sampling is the process of choosing, from a much large population, a group about which wish to make generalized statements so that the selected part represent the total group (Leedy, 1989). Accordingly, in order to determine representative sample size, the researcher used a statistical formula developed by Yemane, Taro (1967), where the researcher would have 95% confidence level and with only 5% error term.

Therefore, using 329 total populations of the active merchants the following sample would be drawn using the formula.

$$n = \frac{N}{1 + N(e)^2}$$

Where: n= sample size

N=Total population

e=the error term

So, n= $\frac{329}{1+329(0.05)^2}$

n= 180.5 or 181

Based on the sample drawn, the researcher distributed the questionnaire based on stratified random sampling technique, where merchants were categorized based on strata in to four categories which include

Hotels, Galleries & Jewellery, Tour & Travel and Supermarket. The researcher intended to use this technique because it enabled to bring the heterogeneous population in to a group of homogeneous. In order to distribute the questionnaire proportionally across the sampling frame, the researcher used judgmental (purposive) sampling technique, as it is distributed based on their values.

The following table represents the top 30 merchants that the Bank indentified as of June 30, 2014.

No.	Merchant Name/category	Sales Volume (ETB Birr)
	Hotel	
1.	Sheraton Addis Hotel	218,284,831.25
2.	Hilton Addis Hotel	150,238,157.30
3.	Raddison Blu Hotel	126,557,681.52
4.	Intercontinental Hotel	42,186,455.54
5.	Harmony Hotel	41,573,279.90
6.	Jupiter International Hotel	29,161,395.87
7.	Lexus Addis Hotel (Capital Hotel & SPA)	18,900,395.67
8.	Elili Hotel	9,705,293.57
9.	Dreamliner Hotel	9,110,023.78
10.	Wasamar Hotel	7,635,969.57
11.	Alemayehu Nigussie (Sario Maria)	5,940,539.89
12.	Friendship Business Group	5,888,444.78
13.	Bole Ambasador Hotel Apartment	5,865,968.17
14.	Haimi Apartment Hotel	5,767,162.15
15.	Ghion Hotel Enterprise	5,246,925.60
16.	Beer Garden INN PLC	4,829,455.44
17.	Regency Hotel	4,828,369.42
18.	Siyonat Hotel	4,404,333.36
19.	Monarch Hotel	3,962,654.91
20.	DAG Trading PLC (Nexus Hotel)	3,535,792.33
21.	Reliance Hotel Appartment PLC	3,374,095.25
	Galleries & Jewellery	
22.	Ethio-Tourist Trading Enterp	7,169,450.08
23.	St George Décor & Art Gallery	4,501,806.09
24.	Makush Art Gallery	2,056,638.76
25.	Teklu Desta Jewellery	1,395,458.38
	Tour & Travel	
26.	Ethio National Tour and Travel	4,612,602.75
27.	Falcon Travel	2,308,203.00
28.	Grant Express	1,658,751.10
	Supermarket	
29.	Bambis Plc	9,183,453.12
30..	Safeway Supermarket	333,706.36

The bank selected the top 30 merchants as of June 30, 2014 were listed on the above table with their values. Therefore by using this data the researcher would proportionate the percentage for each category out of the number of merchants. These were:

Hotel**:**	21/30*181	126.7 or 127
Galleries & Jewellery:	4/30*181	24
Tour & Travel:	3/30*181	18.1 or 18
Supermarket:	2/30*181	12

From the listed four merchant category the hotel hold the highest percentage that was 127 questionnaires distributed, the next highest percentage would be Galleries & Jewellery that was 24 questionnaire distributed, the third highest was Tour and Travel that was 18 questionnaires distributed to Tour & Travel and 12 questionnaire distributed to the Supermarket. By this the researcher believed that the response of these 30 merchants represented the rest of the total population.

3.5. SOURCES AND TOOLS/INSTRUMENTS OF DATA COLLECTION

The researcher would use both primary and secondary sources of data to conduct the study. Accordingly, the primary data obtained from the top level managers, merchant officers and from active merchants selected based on statistical sampling technique. The secondary data also obtained from, company manuals, records, Books, Journal articles, Web sites and etc.

The researcher would also used data collection instruments like interview to collect primary data from top level managers, focus group discussion to solicit the opinion of merchant officers and a five scale likert type self-administered questionnaire to get the opinion of merchants.

3.6. METHOD OF DATA ANALYSIS

Data analysis consists of examining, categorizing, tabulating, or otherwise recombining the evidence, to address the initial proposition of a study (Yin, 1989). The researcher analyzed the data collected through survey to statistical population concerning the role and impact of merchant acceptance towards enhancing banks profitability. The data collected via questionnaires was analyzed with descriptive statistics using statistical package for social scientists (SPSS version 20). Furthermore, Wolcott (1994) cited in Creswell (2003), suggested that qualitative research is fundamentally interpretative i.e. the researcher makes an interpretation of the data. Thus, the data that collected from the interview and reviews of documents were interpreted qualitatively.

Therefore from the quantitative aspect of the study, descriptive statistics used to analyze the research data where frequency tables, percentages, arithmetic mean and standard deviation would be used.

CHAPTER FOUR

4.0. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

In the previous chapter, the overall methodology, which was focused on research purpose, method of data collection and data analysis used in the study has been presented. On the other hand this chapter presented the results and analysis of data collected through questionnaire, interview, document analysis and focus group discussion. Therefore this chapter organized as follows. Section.4.1 presents the introduction of the chapter and followed by the result and analysis of questionnaire in section 4.2, Section 4.5, presented the result obtained from interview, Section 4.6 presented the document analysis and the last section, section 4.7 presented the result obtained from focus group discussion.

4.1. INTRODUCTION

As it is discussed in the methodology part of this study, data collected by using different techniques were analyzed in this chapter. A total of 181 questionnaires were distributed to four top merchant group these were Hotels, Galleries & Jewellery, Tour & Travel and Supermarket .Out of the total 181 questionnaires, 156 or 86.2% useable questionnaires were obtained. In addition to questionnaire, interview from manager of EBSD, document analysis and focus group discussion were examined. The questionnaires were structured in close-ended type and responses to the questions were measured on a five Likert rating scale where: Strongly Agree (SA) = 1; Agree (A) = 2; Neutral (N) = 3, Disagree (D) = 1, and Strongly Disagree (SD) = 5. The use of likert scale is to make it easier for respondents to answer question in a simple way. In order to analyze the research results, Statistical Package for the Social Sciences (SPSS) software is used. SPSS is a computer program used for statistical analysis. SPSS fit with quantitative approach and survey strategy which were adopted in this research; SPSS has many features and properties which can provide appropriate results, these results lead to achieve research purposes. The data collected via questionnaires was analyzed with descriptive statistics using statistical package for social scientists (SPSS). Furthermore, Wolcott (1994) cited in Creswell (2003; pp. 184), suggested that qualitative research is fundamentally interpretative i.e. the researcher makes an interpretation of the data. Thus, the data that was collected from the interview and focus group disscussion were interpreted qualitatively. To sum, the analysis of quantitative data and interpretation of qualitative data combines to seek convergence among the results (Creswell, 2003).

4.2. RESULTS AND ANALYSIS OF QUESTIONNAIRE

4.3. DEMOGRAPHIC INFORMATION OF THE RESPONDENTS

In this section, the demographic characteristics of sample respondents were described. Basic demographic variables: Gender, educational background, working experience, and also working experience in the current position were summarized from the primary data to offer a high light to readers on the general characteristics of the sample population.

Table 4.2.0: Summary of the respondents demographic profile

		Gender	Educational Background	Current Position	Experience
N	Valid	156	156	156	150
	Missing	0	0	0	6
Mean			1.81		1.6600
Std. Deviation			.683		.78433

Source: *Survey, 2015*

As it was depicted in table 4.2.0 all the respondents replied fully with no missing values of their common profile with the exception of the current working experience i.e (gender, educational background and current position). From the 156 respondents 6 respondents omitted to put in their experience. It showed that majority of the respondents appropriately react the necessary data required by the researcher. The detail description for each summarized outcome would be depicted separately in the following table in detail.

Table 4.2.1: Gender of the respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	female	75	48.1	48.1	48.1
	male	81	51.9	51.9	100.0
	Total	156	100.0	100.0	

Source: *Survey, 2015*

The above table showed from the 156 respondents 48.1% was female and 51.9% was female. The difference in the respondent's gender was not as such big but majority of the respondents were male. Therefore it implied that the gender of the employees from the selected four merchant category i.e (Hotels, Galleries & Jewellery, Tour & Travel and Supermarket) were male. As a result of these most of the response were replied by male employee.

Table 4.2.2: Educational Background of the Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Diploma	49	31.4	31.4	31.4
	1st degree	93	59.6	59.6	91.0
	above degree	9	5.8	5.8	96.8
	Other	5	3.2	3.2	100.0
	Total	156	100.0	100.0	

Source: *Survey, 2015*

About educational background of the respondent's, table. 4.1.2, from 156 respondents, 59.6% have had first degree, 31.4% have had diploma holder, and 5.8% have had above first degree. 3.2% of the respondents have had in other category. The researcher understand that majority of the respondents have had their first degree, and it illustrated that they were qualified for their job and the sample respondents could understood the questions and the answers obtained from those were reliable.

Table 4.2.3: Current Position of the Respondents*

Regarding the current position of the respondent the receptionists that were 32.1% or 50. This proportion was covered the foremost of all the other fraction of respondents. The remaining percentages for the other respondents were very far. It implied that majority of the questionnaire were filled by the receptionist so that the data that the researcher got was trustworthy because they had a daily interaction with the point of sale terminal and also they could say more about the point of sale terminal.

Table 4.2.4: Working experience of the Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	below five years	74	47.4	49.3	49.3
	5-10 years	59	37.8	39.3	88.7
	10-15 years	11	7.1	7.3	96.0
	above 15 years	6	3.8	4.0	100.0
	Total	150	96.2	100.0	
Missing	System	6	3.8		
Total		156	100.0		

Source: *Survey, 2015*

* The table for the current position of the respondents is very long so that it is appendix at the end of the researcher paper.

Regarding the respondents' working experience at their current position in the above table showed that from156 respondents 47.4% were below five year experiences, 37.8 % were between 5 to 10 years experiences, 7.1% were between 10 to 15 years experiences and 3.8% were above 15 years experience. As a result depicted on the above table the researcher could concluded that majority of the respondents were below five years and it means that that their working experience that enabled to replied the question that were raised because they were adequate understanding about the POS operation and also the responses were reliable.

4.4. SUMMARIZED DATA FOR EACH VARIABLES OF MEAN, STANDARD DEVIATION, SKEWNESS & KURTOSIS

In this section, all issued that were raised in the questionnaire would be replied by the respondents in different extent of measurements, the degree of measurement would be noted in each table. Therefore all the five variables i.e Awareness, Access of POS terminal, Support from the bank, Satisfaction with bank service and customer bank relation and also each issue that would elevate under each variables would countered. The data would present in tabular manner.

4.5. ROLE OF THE BANK TOWARDS MERCAHNT ACCEPTANCE

Table 4. 4.1 "A1" : The bank makes and create awareness towards initiating purchase through POS

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Strongly Agree"	5	3.2	3.2	3.2
	"Agree"	25	16.0	16.1	19.4
	"Neither Agree Nor Disagree"	11	7.1	7.1	26.5
	"Disagree"	82	52.6	52.9	79.4
	"Strongly Disagree"	32	20.5	20.6	100.0
	Total	155	99.4	100.0	
Missing	System	1	.6		
Total		156	100.0		

Note: *Response measurements,* ***1*** *- strongly agree,* ***2*** *- Agree,* ***3*** *- Neutral,* ***4*** *- Disagree and* ***5*** *- strongly disagree*
Source: *Survey, 2015*

Table 4.4.1 above showed that the degree to which respondents disagree to the statement saying "The bank makes and create awareness towards initiating purchase through POS". Out of the total 156 respondents, 155 of them answered to the above statement. 52.6% of the respondents were disagree, 20.5% of them were strongly disagree, 16% of them were agree 7.1% of them were neither agree nor disagree and the remaining 3.2% of them were strongly agree to this specific statement. As indicated in table 4.3.0 in the appendix the standard deviation was 1.068 which is greater than one and implied that the

data is spread out over a large range of values which means there are varied options among respondents regarding the variables measured. Therefore majority of the respondents contested that the bank makes and create awareness towards initiating purchase through POS.

Table 4.4.2. "A2": The bank provides continuous training on POS terminal operation to bring operational efficiency

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Agree"	35	22.4	22.4	22.4
	"Neither Agree Nor Disagree"	7	4.5	4.5	26.9
	"Disagree"	81	51.9	51.9	78.8
	"Strongly Disagree"	33	21.2	21.2	100.0
	Total	156	100.0	100.0	

Note: *Response measurements,* ***1*** *- strongly agree,* ***2*** *- Agree,* ***3*** *- Neutral,* ***4*** *- Disagree and* ***5*** *- strongly disagree*
Source: *Survey, 2015*

With respect to the statement saying "The bank provides continuous training on POS terminal operation to bring operational efficiency". Out of the total respondents all provided answer to the above statement and out of which 51.9% of the respondents disagreed, and 21.2% were strongly disagreed the remaining 26.4% of the respondents were agree and neither agreed nor disagreed respectively. Therefore the result showed that the bank didn't give a regular training to bring operational efficiency on POS terminal. As depicted in table 4.3.0 in the appendix the standard deviation 1.04 which had a value greater than one and inferring that the data points reached out over a large range of values which means there are varied options among respondents regarding the variables measured.

Table 4.4.3 "APOS 1": We get POS terminal on time

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Strongly Agree"	4	2.6	2.6	2.6
	"Agree"	19	12.2	12.4	15.0
	"Neither Agree Nor Disagree"	9	5.8	5.9	20.9
	"Disagree"	76	48.7	49.7	70.6
	"Strongly Disagree"	45	28.8	29.4	100.0
	Total	153	98.1	100.0	
Missing	System	3	1.9		
Total		156	100.0		

Note: *Response measurements,* ***1*** *- strongly agree,* ***2*** *- Agree,* ***3*** *- Neutral,* ***4*** *- Disagree and* ***5*** *- strongly disagree*
Source: *Survey, 2015*

Table 4.4.3 depicted the degree to which respondents disagree to the statement saying "We get POS terminal on time" out of the total of 156 respondents, 153 of them answered to the above statement." 48.7% and 28.8% of the respondent were disagreed and strongly disagreed for this particular statement. The other proportion of the respondents were replied i.e 12.2%, 5.8% and 2.6% were by agree, neither agree nor disagree and strongly agree respondents respectively. Referring table 4.3.0 in the appendix the standard deviation was calculated at 1.041 which is greater than one and implied that the data was extended out over a large range of values which means there were varied options among respondents regarding this variable measured. Therefore there was a disagreement by the respondents that getting POS on time was very hard. For that reason dashen merchant service section took this remark in to consideration because it could be one of the causes for the termination or shifting of the signed merchants to the other player even after signing with the dashen bank.

Table 4.4.4 "APOS 2": We get additional POS terminal on time if we need

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Strongly Agree"	4	2.6	2.6	2.6
	"Agree"	23	14.7	15.1	17.8
	"Neither Agree Nor Disagree"	17	10.9	11.2	28.9
	"Disagree"	84	53.8	55.3	84.2
	"Strongly Disagree"	24	15.4	15.8	100.0
	Total	152	97.4	100.0	
Missing	System	4	2.6		
Total		156	100.0		

Note: *Response measurements,* ***1*** *- strongly agree,* ***2*** *- Agree,* ***3*** *- Neutral,* ***4*** *- Disagree and* ***5*** *- strongly disagree*
Source: *Survey, 2015*

Table 4.4.4 summarized the frequency distribution showing respondents level of disagreement to the statement saying "We get additional POS terminal on time if we need". Out of the total 156 respondents, 152 of them answered to the above statement and out of which 53.8% of the respondents disagree, 15.4% was strongly disagree, 14.7% was agree and the remaining 10.9% and 2.6% was neither agree nor disagree and strongly agree. Referring to table 4.3.0 in the appendix the standard deviation was calculated as 1.003 which is greater than one and implied that the data was extended out over a large range of values which means there were varied decision among respondents regarding this variable measured. The above mentioned data indicated that getting additional point of sale terminal at the time you need is impossible. Therefore this particular statement also maintained the idea of the above statement in table 4.3.3., and not getting additional POS terminal on time could be one factor for the declining of active merchants.

Table 4.4.5 "APOS 3": The bank provides an immediate replacement for dysfunctional POS terminal

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Strongly Agree"	6	3.8	3.9	3.9
	"Agree"	20	12.8	12.9	16.8
	"Neither Agree Nor Disagree"	11	7.1	7.1	23.9
	"Disagree"	77	49.4	49.7	73.5
	"Strongly Disagree"	41	26.3	26.5	100.0
	Total	155	99.4	100.0	
Missing	System	1	.6		
Total		156	100.0		

Note: *Response measurements,* ***1*** *- strongly agree,* ***2*** *- Agree,* ***3*** *- Neutral,* ***4*** *- Disagree and* ***5*** *- strongly disagree*
Source: *Survey, 2015*

Table 4.4.5 above showed the degree to which respondents disagree to the statement saying "The bank provides an immediate replacement for dysfunctional POS terminal". Out of the total 156 respondents, 155 of them answered to the above statement. 49.4% of the respondents disagree, 26.3% was strongly disagree, 12.8% was agree and the remaining 7.1% and 3.8% was neither agree nor disagree and strongly agree. As indicated in table 4.3.0 in the appendix the standard deviation was 1.084 which is greater than one and implied that the data is spread out over a large range of values which means there are varied options among respondents regarding the variables measured. Therefore majority of the respondents contested that the bank provides an immediate replacement for dysfunctional point of sale terminal.

Table 4.4.6 "APOS 4": The bank regularly updates the application of POS terminal

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Strongly Agree"	9	5.8	6.0	6.0
	"Agree"	92	59.0	61.3	67.3
	"Neither Agree Nor Disagree"	13	8.3	8.7	76.0
	"Disagree"	36	23.1	24.0	100.0
	Total	150	96.2	100.0	
Missing	System	6	3.8		
Total		156	100.0		

Note: *Response measurements,* ***1*** *- strongly agree,* ***2*** *- Agree,* ***3*** *- Neutral,* ***4*** *- Disagree and* ***5*** *- strongly disagree*
Source: *Survey, 2015*

With respect to the statement saying "The bank regularly updates the application of POS terminal" Out of the total 156 respondents, 150 of them answered to the above statement. 59% and 5.8% of the respondents expressed their level of agreement. 23.1% of them disagree and 8.3% of them were neither agree nor disagree. As portrayed in table 4.3.0 in the appendix the standard deviation is .925 which had a value less than one and inferring that the data points tended to be very close to the mean i.e 2.51.

Therefore, the result showed on this table almost 64.8% of the respondents have the same opinion on this particular variable measured i.e agreed which means that the result is encouraging for the bank to continue a regular updating of POS terminal.

Table 4.4.7 " SP 1": The Contact person of the bank are always willing to help me

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Strongly Agree"	9	5.8	5.8	5.8
	"Agree"	19	12.2	12.2	17.9
	"Neither Agree Nor Disagree"	10	6.4	6.4	24.4
	"Disagree"	86	55.1	55.1	79.5
	"Strongly Disagree"	32	20.5	20.5	100.0
	Total	156	100.0	100.0	

Note: *Response measurements,* ***1*** *- strongly agree,* ***2*** *- Agree,* ***3*** *- Neutral,* ***4*** *- Disagree and* ***5*** *- strongly disagree*
Source: *Survey, 2015*

With respect to the statement saying "The contact person of the bank are always willing to help me", all respondents i.e. 156 of them answered to the above statement and out of which 55.1% of the respondents disagreed, 20.5% of the respondents were strongly disagreed, 12.2% of the respondents were agree, 5.8% of the respondents were strongly agree and the remaining 6.4% of the respondents were neither agree nor disagree to such specific variable on motivation of the contact person about support. As portrayed in table 4.3.0 in the appendix the standard deviation is 1.099 which had a value greater than one and inferring that the data is spread out over a large range of values which means there are varied options among respondents regarding the variables measured. Therefore, majority of the respondents opposed with regard to the idea that the contact people of the bank are always willing to help me. This result could be one of the major parts of the merchant's difficulty.

Table 4.4.8 "SP 2": We get an immediate support from the contact person of the bank by the time we need their help

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Strongly Agree"	9	5.8	5.8	5.8
	"Agree"	20	12.8	12.8	18.6
	"Neither Agree Nor Disagree"	9	5.8	5.8	24.4
	"Disagree"	90	57.7	57.7	82.1
	"Strongly Disagree"	28	17.9	17.9	100.0
	Total	156	100.0	100.0	

Note: *Response measurements,* ***1*** *- strongly agree,* ***2*** *- Agree,* ***3*** *- Neutral,* ***4*** *- Disagree and* ***5*** *- strongly disagree*
Source: *Survey, 2015*

With respect to the statement saying "We get an immediate support from the contact person of the bank by the time we need their help", all respondents i.e. 156 of them answered to the above statement and out of which 57.7% of them disagreed, 17.9% of them strongly disagreed, 12.8% of the them agree, 5.8% of them strongly agree and also with the same percentage i.e 5.8% of the respondents were neither agree nor disagree to such specific variable on getting well timed support from the contact person of the bank by the time we need their help. As it showed the highest percentage covered by the disagreed respondent for this particular statements, which means that the dashen merchants not getting support in need of attention. As portrayed in table 4.3.0 in the appendix the standard deviation is 1.087 which had a value greater than one and inferring that the data was spread out over a large range of values which means there are varied options among respondents regarding the variables measured.

Table 4.4.9 "SP 3": The bank provides stationery materials like receipt roll paper on time for POS operation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Strongly Agree"	30	19.2	19.7	19.7
	"Agree"	94	60.3	61.8	81.6
	"Disagree"	26	16.7	17.1	98.7
	"Strongly Disagree"	2	1.3	1.3	100.0
	Total	152	97.4	100.0	
Missing	System	4	2.6		
Total		156	100.0		

Note: *Response measurements,* ***1*** *- strongly agree,* ***2*** *- Agree,* ***3*** *- Neutral,* ***4*** *- Disagree and* ***5*** *- strongly disagree*
Source: *Survey, 2015*

With respect to the statement saying "The bank provides stationery materials like receipt roll paper on time for POS operation" Out of the total 156 respondents, 152 of them answered to the above statement and out of which 60.3% of the respondents expressed their level of agreement, 19.2% of them were strongly agreed, 16.7% of the respondents were disagree and the remaining 1.3% of the respondents were strongly disagree to the availability of POS receipt on time. Therefore the acquired result would indicated that dashen bank keep on the pace to deliver the POS receipt. As portrayed in table 4.3.0 in the appendix the standard deviation is .986 which had a value less than one and inferring that the data points tended to be very close to the mean i.e 2.18. Therefore, majority of the respondents have had the same opinion on this specific variable.

Table 4.4.10 "SAT 1": We are satisfied with the banks merchant service through the weekend, holidays and after working hours

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Strongly Agree"	5	3.2	3.2	3.2
	"Agree"	22	14.1	14.1	17.3
	"Neither Agree Nor Disagree"	4	2.6	2.6	19.9
	"Disagree"	81	51.9	51.9	71.8
	"Strongly Disagree"	44	28.2	28.2	100.0
	Total	156	100.0	100.0	

Note: *Response measurements,* ***1*** *- strongly agree,* ***2*** *- Agree,* ***3*** *- Neutral,* ***4*** *- Disagree and* ***5*** *- strongly disagree*
Source: *Survey, 2015*

Table 4.4.10 depicted the extent to which respondents disagree to the statement saying "We are satisfied with banks merchant service through the weekend, holidays and after working hours". Out of the total of 156 respondents, all provided answer to the above statement and out of which 51.9% of them disagreed, 28.2% of them strongly disagreed, 14.1% of them were agree and the remaining insignificance percentage were by strongly agree and neither agree nor disagree i.e 3.2% and 2.6% respectively to such specific variable on fulfillment with the banks merchant service though the weekend, holidays and after working hours. For that reason, the bank merchant service that was indicating in the above statement can be considered as one factor for the merchant dissatisfaction. As portrayed in table 4.3.0 in the appendix the standard deviation is 1.074 which had a value greater than one and inferring that the data is spread out over a large range of values which means there are varied options among respondents regarding the variables measured.

Table 4.4.11 "SAT 2": POS terminal is working properly at all hours and days

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Strongly Agree"	3	1.9	1.9	1.9
	"Agree"	18	11.5	11.7	13.6
	"Neither Agree Nor Disagree"	19	12.2	12.3	26.0
	"Disagree"	73	46.8	47.4	73.4
	"Strongly Disagree"	41	26.3	26.6	100.0
	Total	154	98.7	100.0	
Missing	System	2	1.3		
Total		156	100.0		

Note: *Response measurements,* ***1*** *- strongly agree,* ***2*** *- Agree,* ***3*** *- Neutral,* ***4*** *- Disagree and* ***5*** *- strongly disagree*
Source: *Survey, 2015*

As it was showed in table 4.4.11 the extent to which respondents disagree to the statement saying "POS terminal is working properly at all hours and days". Out of the total of 156 respondents, 154 of them answered to the above statement and out of which 46.8% of them disagreed and the next highest percentage of the i.e 26.3% of the respondents were strongly disagree to such particular variable on functioning of POS at all hours and days. The remaining 12.2%, 11.5%and 1.9% of the respondents were neither agree nor disagree, agree and strongly agree respectively. For that reason, the bank merchant service that was indicating in the above statement can be considered as one aspect for the merchant dissatisfaction. As portrayed in table 4.3.0 in the appendix the standard deviation is 1.008 which had a value greater than one and inferring that the data is spread out over a large range of values which means there are varied options among respondents regarding the variables measured.

Table 4.4.12 "SAT 3": We are confident enough with the banks merchant services

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Strongly Agree"	10	6.4	6.5	6.5
	"Agree"	92	59.0	59.4	65.8
	"Neither Agree Nor Disagree"	25	16.0	16.1	81.9
	"Disagree"	28	17.9	18.1	100.0
	Total	155	99.4	100.0	
Missing	System	1	.6		
Total		156	100.0		

Note: *Response measurements,* ***1*** *- strongly agree,* ***2*** *- Agree,* ***3*** *- Neutral,* ***4*** *- Disagree and* ***5*** *- strongly disagree*
Source: *Survey, 2015*

As it was showed in table 4.4.12 the extent to which respondents agree to the statement saying "We are confident enough with banks merchant services" Out of the total of 156 respondents, 155 of them answered to the above statement and out of which 59% of them agreed, 17.9% of them disagree, 16% of them neither agree nor disagree and 6.4% of them were strongly agree to this particular variable on adequate confidence on banks merchant services. The highest percentage for this particular statement replied by the agreed respondents. Therefore this result could be a success factor for the dashen e-banking. As portrayed in table 4.3.0 in the appendix the standard deviation is .862 which had a value less than one and inferring that the data points tended to be very close to the mean i.e 2.46.

Table 4.4.13 " SAT 4": The merchant services of the bank are competent as compared to other players in the industry

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Strongly Agree"	36	23.1	23.4	23.4
	"Agree"	89	57.1	57.8	81.2
	"Neither Agree Nor Disagree"	4	2.6	2.6	83.8
	"Disagree"	23	14.7	14.9	98.7
	"Strongly Disagree"	2	1.3	1.3	100.0
	Total	154	98.7	100.0	
Missing	System	2	1.3		
Total		156	100.0		

Note: *Response measurements,* ***1*** *- strongly agree,* ***2*** *- Agree,* ***3*** *- Neutral,* ***4*** *- Disagree and* ***5*** *- strongly disagree*
Source: *Survey, 2015*

Table 4.4.13 above showed that the extent to which respondents agree to the statement saying "The merchant services of the bank are competent as compared to other players in the industry". Out of the total of 156 respondents 154 of them answered to the above statement. 57.1% of the total respondents were agreed, 23.1% were strongly agreed, 14.7% of the respondents were disagree, the remaining small part would replied by the neither agree nor disagree and strongly disagree respondents i.e 2.6% and 1.3% respectively for this specific variable. Higher values such as agreed and strongly agreed were concentrated around the mean value denoting that there was strong consensus by the respondents that the merchant services of the bank are competent as compared to other participant. Therefore the result obtained from the above table could acknowledge by the majority of the respondents. As indicated in table 4.3.0 in the appendix the standard deviation was .982 which was less than one and implied that the data points tended to be very close to the mean i.e. 2.13 and there was general consensus by the respondents for this specific variable under consideration.

Table 4.4.14 "SAT 5": We have much trust on the bank when conducting online transactions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Agree"	30	19.2	19.5	19.5
	"Neither Agree Nor Disagree"	15	9.6	9.7	29.2
	"Disagree"	71	45.5	46.1	75.3
	"Strongly Disagree"	38	24.4	24.7	100.0
	Total	154	98.7	100.0	
Missing	System	2	1.3		
Total		156	100.0		

Note: *Response measurements,* ***1*** *- strongly agree,* ***2*** *- Agree,* ***3*** *- Neutral,* ***4*** *- Disagree and* ***5*** *- strongly disagree*
Source: *Survey, 2015*

With respect to the statement saying "We have much trust on the bank when conducting online transactions", Out of the total of 156 respondents 154 of them answered to the above statement and in which expressed their level of disagreement of the respondents were 45.5% and 24.4% respectively on the idea of trust on the other hand 19.2% of the respondents were agree and 9.6% were neither agree nor disagree on such specific variable i.e conducting online transaction. Therefore, almost 70% of the respondents were uncertain on conducting on online transaction and these uncertainty might cause the merchants discouraged to transact online evenif the need arise. As indicated in table 4.3.0 in the appendix the standard deviation was 1.036 which had a value greater than one and inferring that the data was spread out over a large range of values which means there are varied options among respondents.

Table 4.4.15 "CBR 1": We are always happy with the service charge imposed by the bank

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Strongly Agree"	8	5.1	5.1	5.1
	"Agree"	22	14.1	14.1	19.2
	"Neither Agree Nor Disagree"	20	12.8	12.8	32.1
	"Disagree"	85	54.5	54.5	86.5
	"Strongly Disagree"	21	13.5	13.5	100.0
	Total	156	100.0	100.0	

Note: *Response measurements,* ***1*** *- strongly agree,* ***2*** *- Agree,* ***3*** *- Neutral,* ***4*** *- Disagree and* ***5*** *- strongly disagree*
Source: *Survey, 2015*

As it was showed in table 4.4.15 respondents disagree to the statement saying "We are always happy with the service charge imposed by the bank". Out of the total of 156 respondents, all provided answer to the above statement and out of which 54.5% of the respondents disagreed, 13.5% were strongly disagree,

14% of them were agree, 12.8% were neither agree nor disagree and 5.1% of the respondents were strongly agree to such particular variable on service charge imposed by the bank. The result implied for this specific variable indicated that merchants were discontented on the service charge imposed by the bank. As portrayed in table 4.3.0 in the appendix the standard deviation is 1.054 which had a value greater than one and inferring that the data is spread out over a large range of values which means there are varied options among respondents regarding the variables measured.

Table 4.4.16 "CBR 2": The bank always encourages us to give our complaints regarding the merchants services

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Strongly Agree"	5	3.2	3.2	3.2
	"Agree"	24	15.4	15.6	18.8
	"Neither Agree Nor Disagree"	23	14.7	14.9	33.8
	"Disagree"	76	48.7	49.4	83.1
	"Strongly Disagree"	26	16.7	16.9	100.0
	Total	154	98.7	100.0	
Missing	System	2	1.3		
Total		156	100.0		

Note: *Response measurements,* ***1*** *- strongly agree,* ***2*** *- Agree,* ***3*** *- Neutral,* ***4*** *- Disagree and* ***5*** *- strongly disagree*
Source: *Survey, 2015*

The data stipulated in the above table 4.4.16 showed the extent to which respondents disagreed to the statement saying "the bank always encourages us to give our complaints regarding the merchant services". Out of the total of 156 respondents, 154 of them replied to the above statement and out of which 48.7% of the respondents were disagreed to the statement and 16.7% of the respondents were strongly disagreed. The remaining 33% of them were strongly agree, agree and neither agree nor disagree respondents. Higher values such as disagreed and strongly disagreed were concentrated around the mean value denoting that there was strong dissimilarity by the respondents for this specific variable i.e the bank promotes the complaints regarding the merchant services. In aggregate 65.4% were disagreed and strongly disagreed which means that the higher values were concentrated to the mean value i.e.3.61. Referring to table 4.3.0 in the appendix, the standard deviation 1.044 was greater than one and inferring that the data was spread out over a large range of values which means there are varied options among respondents. Higher values such as disagreed and strongly disagreed were concentrated around the mean value denoting that there was strong dissimilarity by the respondents for this specific variable i.e the bank promotes the complaints regarding the merchant services.

Table 4.4.17 "CBR 3": The bank openly discusses and tries to solve disputes when they arise

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Strongly Agree"	8	5.1	5.3	5.3
	"Agree"	27	17.3	17.8	23.0
	"Neither Agree Nor Disagree"	20	12.8	13.2	36.2
	"Disagree"	78	50.0	51.3	87.5
	"Strongly Disagree"	19	12.2	12.5	100.0
	Total	152	97.4	100.0	
Missing	System	4	2.6		
Total		156	100.0		

Note: *Response measurements,* ***1*** *- strongly agree,* ***2*** *- Agree,* ***3*** *- Neutral,* ***4*** *- Disagree and* ***5*** *- strongly disagree*
Source: *Survey, 2015*

The data stipulated in the above table showed the degree to which respondents disagree to the statement saying "The bank openly discusses and tries to solve disputes when they arise". Out of the total of 156 respondents, 152 of them replied to the above statement and out of which 50% of the respondents were disagreed to the statement, 12.2% of the respondents were strongly disagreed, 12.8% of them were neutral and the rest was agreed to the statement i.e 17.3% agree and 5.1% strongly agree. Majority of the respondents disagreed for this particular statement; as a result of this the consequence indicated that the merchants would like to openly discuss and solve disputes whenever occurred. In aggregate 62.2% were disagreed and strongly disagreed which means that higher values were concentrated to the mean value i.e. 3.48. Referring to table 4.3.0 in the appendix, the standard deviation was calculated at 1.086 which is greater than one and inferring that the data was spread out over a large range of values which means there are varied options among respondents.

Table 4.4.18 "CBR 4": We prefer the customer to pay us via cash than card

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Strongly Agree"	66	42.3	43.1	43.1
	"Agree"	61	39.1	39.9	83.0
	"Neither Agree Nor Disagree"	11	7.1	7.2	90.2
	"Disagree"	12	7.7	7.8	98.0
	"Strongly Disagree"	3	1.9	2.0	100.0
	Total	153	98.1	100.0	
Missing	System	3	1.9		
Total		156	100.0		

Note: *Response measurements,* ***1*** *- strongly agree,* ***2*** *- Agree,* ***3*** *- Neutral,* ***4*** *- Disagree and* ***5*** *- strongly disagree*
Source: *Survey, 2015*

The data stipulated in the above table showed that the extent to which respondents agreed to the statement saying "We prefer the customer to pay us via cash than card". Out of the total of 156 respondents, 153 of them replied to the above statement and out of which 42.3% of the respondents were strongly agreed to the statement and 39.1% of the respondents were agreed. The remaining 16.7% of them were disagreed; neither agreed nor disagreed and strongly agreed respondents. In aggregate 81.4% were agreed and strongly agreed which means that the higher values were concentrated to the mean value i.e.1.86. The achieved result could be an indicator for the declining on the value of the card transaction. Referring to table 4.3.0 in the appendix, the standard deviation was calculated at .99 which was less than one and implied that the data points tended to be very close to the mean i.e. 1.86 and there was general consensus by the respondents for this specific variable under consideration. Higher values such as agreed and strongly agreed were concentrated around the mean value denoting that there was strong consensus by the respondents that the merchants favors that to pay in cash rather than card.

Table 4.4.19 "CBR 5": The Bank settles both the domestic and international card transactions on time

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Strongly Agree"	12	7.7	7.8	7.8
	"Agree"	11	7.1	7.1	14.9
	"Neither Agree Nor Disagree"	21	13.5	13.6	28.6
	"Disagree"	91	58.3	59.1	87.7
	"Strongly Disagree"	19	12.2	12.3	100.0
	Total	154	98.7	100.0	
Missing	System	2	1.3		
Total		156	100.0		

Note: *Response measurements,* ***1*** *- strongly agree,* ***2*** *- Agree,* ***3*** *- Neutral,* ***4*** *- Disagree and* ***5*** *- strongly disagree*
Source: *Survey, 2015*

As it was showed in table 4.4.19 respondents disagree to the statement saying "The bank settles both the domestic and international card transactions on time". Out of the total of 156 respondents, 154 of them answered to the above statement and out of which 58.3% of them disagreed. The rest 13.5%, 12.2%, 7.7% and 7.1% of the respondents were neither agree nor disagree, strongly disagree, strongly agree and agree respectively to such particular variable on settlement date for both domestic and international card transaction. Majority of the respondent showed their objection on this particular statement. For that reason the settlement date was one factor for the merchant that made bad customer bank relation. As portrayed in table 4.3.0 in the appendix the standard deviation was 1.05 which had a value greater than one and inferring that the data is spread out over a large range of values which means there were varied options among respondents regarding the variables measured.

Table 4.4.20 "CBR 6": The bank values and uses our feedback to improve its merchant services.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	"Strongly Agree"	8	5.1	5.1	5.1
	"Agree"	23	14.7	14.7	19.9
	"Neither Agree Nor Disagree"	21	13.5	13.5	33.3
	"Disagree"	87	55.8	55.8	89.1
	"Strongly Disagree"	17	10.9	10.9	100.0
	Total	156	100.0	100.0	

Note: *Response measurements,* ***1*** *- strongly agree,* ***2*** *- Agree,* ***3*** *- Neutral,* ***4*** *- Disagree and* ***5*** *- strongly disagree*
Source: *Survey, 2015*

Table 4.4.20 depicted the degree to which respondents disagree to the statement saying "The bank values and uses our feedback to improve its merchant services". Out of the total respondents all provided answer to the above statement and out of which 55.8% and 10.9% of the respondents were disagree and strongly disagree respectively, the remaining 14.7%, 13.5% and 5.1% of them were agree, neither agree nor disagree and strongly agree respondents disagreed on this specific variable. The result showed that the bank not give values and values of merchant feedback to improve its merchant services. Referring to table 4.3.0 in the appendix, the standard deviation was calculated at 1.038 which was greater than one and implied that the data was extended out over a large range of values which means there were varied options among respondents regarding this specific variable considered.

4.6. RESULTS FROM THE INTERVIEW CONDUCTED WITH EBSD MANAGER

4.6.1. The Role of Merchant Acceptance for Bank's Profitability

Both the merchant and bank have their own role. The role from the merchant side was the merchant should give service via card. However, some customers still not willing to execute via POS. on the other hand the role of the bank would be keeping the promise as what it was promising in the agreement provided unconditional service to the merchants. The bank also should be willing to fulfill the requirements from the merchant side. These are delivering the POS terminal ontime, visiting the merchants on regular basis, giving a regular full training or refresher training accordingly on the merchant interest, updating the POS terminal application whenever the existing application was outdated, supporting every day and every time i.e 24/7 any problems that were related with the POS terminal, giving additional services whenever the need arises, these are a temporary solution at the time the POS terminal was not working i.e online service and phone authorization. In addition to these any enquiry from the merchants should serve according to the rule and procedures of the bank. Therefore because of

all these mentioned responsibilities the bank's role was superior than the merchants and as a result of these to be profitable with regard to merchant acceptance the bank should outshine than the other player by delivering excellence service. To sum up the EBSD manger emphasis here also card selling and merchant acquisition must go hand in hand. In simple word there was no merchant acceptance profitability concept without card productivity.

4.6.2. The Impact of Merchant Acceptance for Banks Profitability

In the card accepting industry merchant acceptance could play crucial role for banks profitability. Dashen bank also categorized from this industry. Through merchant acceptance the bank could create unbanked society and also attract a new merchant or catch the attention of potential merchants from the other players. Therefore the two significance of accepting merchants for the bank's profitability were:

- Merchant Retention and
- Increase efficiency

Merchant Retention

While a modest economic recovery appears to be underway among merchants, merchant attrition remains a concern for many companies in the acquiring industry. Effective merchant retention strategies and best practices are an important and cost - effective tool to minimize attrition and stabilize portfolios.

Differentiating the company and its offerings from competitors was also an effective way to create customer loyalty. In this competitive industry, all competitors experienced the signing of low or unprofitable merchants. Since the intention was just to attract new merchants or just increasing the number of merchants. Therefore reviewing the merchant data to find out which merchants are worth to encounter in the bank portfolio.

Bear in mind it was achievable that to retain the existed potential merchants and attracting new merchants from the other player via excellent services such as delivering user friendly technology, service automated ahead of other player in the market i.e new product development and updated application on POS terminal . However if dashen couldn't deliver these services to their merchants, the merchants would shift to the other player. Therefore, behind shifting these potential merchants to the other players, the impact would be observed in the bank's profitability. In short it means that the declined in the bank's profit would be undeniably.

While competitors were emerged in payment card industry merchant retention was not unproblematic. Every participant was a principal member of VISA and MC. Excluding this dashen bank was exclusive

member of CUP and AMEX cards. The coming seven years dashen bank will be special member of AMEX for both issuing as well as acquisition of cards. This could build the merchants confidence in such a way that dashen bank was pioneer for emerging innovative services in the payment card industry.

Increase Efficiency

Increasing efficiency is not merely a question of doing more work in less time; it is also a question of meeting the stated goal. There is no single correct method for improving efficiency, and a combination of strategies might be needed. Varied factors can influence the competency of the business. In case of dashen bank the two basic dependencies were internal and external dependency. These dependencies were shadowing over the day to day activities of the bank which negatively affects the performance on POS purchase and card issuing activities. The dependencies are getting more and more complex as the POS network coverage is expanding through time. The EBSD Manager tried to show the major problems stated hereunder substantiated with relevant data to support the statements.

EXTERNAL DEPENDENCIES

- **Network Problem from Ethio Telecom.**

Previously the bank used a poor dial up connection for the POS terminal, but the bank currently use two types of connectivity for the POS i.e. one is ADSL (Asymmetric Digital Subscriber Line) type and the other is GPRS (General Packet Radio Service). Dial up connectivity has been found ineffective due to the overall poor network signal in the Country. In the past, efforts have been made but for no avail to apply dial up connectivity to the POS as an option during failure in ADSL and GPRS connectivity. In effect, the ADSL connectivity has been found more effective and is being applied to all dashen POS terminal with its own limitation.

The existing way out mechanism the bank following is somehow a fire fighting approach in which dashen makes its cases registered and Ethio Telecom responds to the registered cases. The response time is predominantly determined by the speed of the Service Provider whether it takes short or long period of time. In such aspect, Dashen Bank is working under “no alternative solution” scenario except making close follow-up of cases under normal scenarios and escalating cases to higher body under worst scenarios. Though this has an encouraging approach and further to be strengthened in the future, the bank should look also into other alternatives to enhance the service delivery standard of Ethio-Telecom.

INTERNAL DEPENDENCIES

There were various internal problems which hampers the day to day operational activities of the POS operation. Some of the major factors were the following:

- **Interruption of Business Process Flow**

Due to various internal factors, there has been interruption of process flow which affects customer satisfaction at various levels. The predominant factors which commonly impede the normal activities and highly contribute to the decline in performance were:

- Card printing machine problem: This problem was the main issue for delay in card production process which erodes the credibility to the customers and further affects the overall transaction performance of dashen acquiring channels. Such problem had a transitive impact on card issuing, distribution and activation of cards.

- Offline Transactions: Such scenario had a defaming effect on the image of the Bank and discourages cardholders from using dashen terminals. Though the frequency of offline transaction was decreasing through time, customers experiencing such scenario decide on to shift to other alternatives.

- **Lack of dynamism in decision making**

As a result of the bureaucratic way of decision making resulting from the current make up of the business process flow, activities which requires immediate decision takes longer period of time than expected which in turn impacts the overall business in general. As there was a high dependency and interactions with other work units, the overall dynamism of the decision making is well reflected on the performance of the Department as business was slipping out as the clock ticks away due to poor decision making.

- **Lack of ownership of the electronic payment business**

Though there is a growing trend towards owning the electronic payment business at Area Banks, there was still much work to do to bring change at a discernible level. Area Banks should exert extensive effort to take care of problems which can be handled within their scope. They should be willing to act 24/7 to solve problems that can be addressed within their boundary. Specially, much work has to be done towards ownership of merchant related activities. To mention some of the issues that requires attention to enhance the ownership level at Area Banks are:

- Enhancing Area Banks participation on merchant activation, merchant signing as well as card issuing and activation.

- Lack of minor troubleshooting knowledge to provide first line and immediate support that can be handled by the Area Banks themselves.

- **Developing policy procedure for POS deployment/redeployment**

A comprehensive policy document should be prepared which can serve as a guide line to administer POS terminals so that appropriate actions should be taken to enhance marketability and performance. Accordingly, some of the areas that should be assessed periodically are:

- Redeployment of POS terminals to other marketable locations
- Replacing outdated POS by new ones and by modernized one.
- Evaluating the marketability of all the terminals and takes appropriate actions on those requiring action. This includes like acquiring additional terminal or redeploying the same brand POS terminal with additional facilities.

While merchant retaining and increasing efficiency were the fundamental factor of merchant acceptance for enhancing bank's profitability. However the bank not satisfying the merchant need the merchants would swing to other competitors. After that the impact on profit would be observed easily. As a result of these some of the major impacts on the bank's profitability would mention underneath.

- Decreasing commission (it has a direct impact on the banks profitability)
  - The POS purchase commission that the bank would get from the POS transaction
- Decrease in bank's deposit mobilization
  - Mobilization of deposit for a bank is an essential as oxygen for human being, (Deb, k. 1988). Deposit mobilization is one of the main functions of banking business and so an important source of working fund for the bank. It is the collection of cash or funds by a financial institution from the public through its current, saving, fixed and other specialized schemes. Since deposit are normally considered as a cost effective source of working fund, the bank's ability to lend more as well as its success greatly lies on its deposit mobilization.
- Decreasing Foreign currency for country economy
  - The bank loses foreign currency that would get from the potential merchants.
- Decreasing the banks customer base (resource base)

- If one of the potential merchant shifts to other player in the industry, the impact for dashen would be the total number of merchant from the bank's profile diminished as the same time the bank would lose this merchant.

Though the researcher finalized the question and answer with the EBSD manager, the supplementary explanation towards the impact of commission on the bank's profitability would be mentioned in the next section i.e on trend analysis. This section demonstrated graphically both international and local POS purchase value as well as the percentage growth.

4.7. TREND ON POINT OF SALE TERMINAL

Dashen Bank has made a paradigm shift towards advancing modernization through introducing modern payment card services for the first time in the history of Ethiopia. Such pioneering role has made the Bank to play a leading role in the payment card industry for the past several years in spite of all the internal and external hurdles facing up through time.

Recent performance on payment card activities had witnessed a decline in performance as compared to the preceding years' even if there was a continues increase in the acquiring network coverage and the number of cards issued to customers through time.

The underneath table and graph would represented the past eight years trend with respect to the corresponding activities on POS terminal at merchant location. The researcher took the value of transaction and percentage growth rate as a major performance indicator. Therefore this section tried to assess the past eight year's POS terminal activities in addition showed what would the impact on the banks profitability.

Table: 4.6.0. Summary of POS commission for the bank's profitability

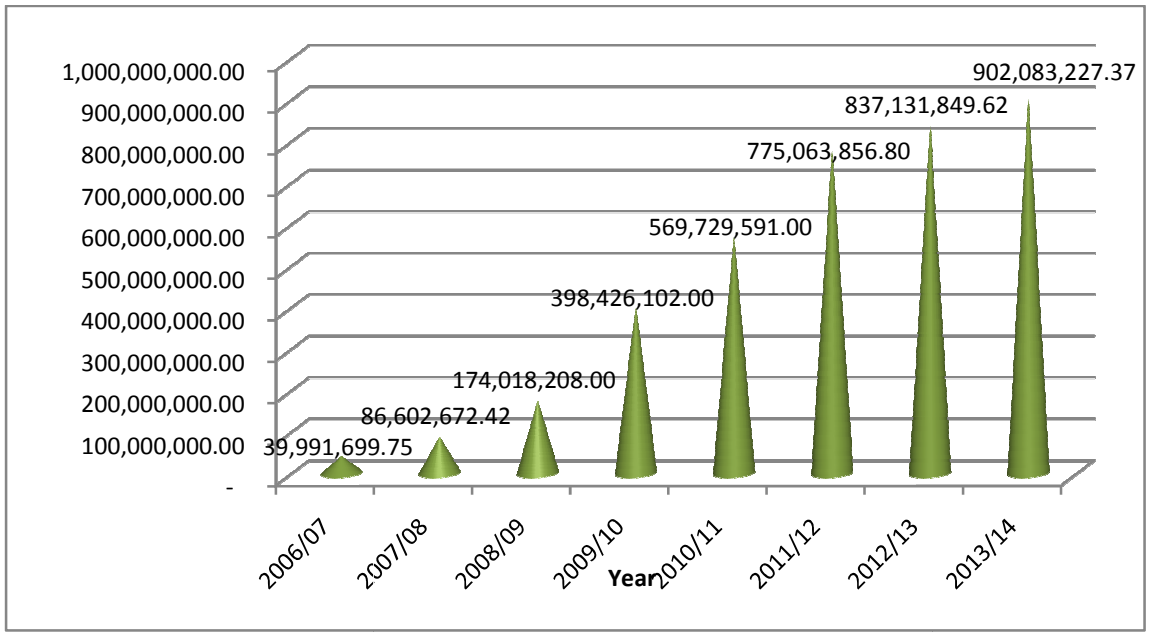
Year	Total Income	POS Commission		%age	
		International POS purchase	Local Pos Purchase	International POS	Local POS
2006/07	484,754,000	39,991,699.75*	408.65**	8.25	
2007/08	669,828,000	86,602,672.42	376,466.62	12.93	0.06
2008/09	755,571,000	174,018,208.00	1,060,442.30	23.03	0.14
2009/10	964,330,000	398,426,102.00	1,736,876.00	41.32	0.18
2010/11	1,282,190,000	569,729,591.00	5,288,459.00	44.43	0.41
2011/12	1,725,355,000	775,063,856.80	3,777,892.00	44.92	0.22
2012/13	1,816,790,000	837,131,849.62	3,076,329.13	46.08	0.17
2013/14	2,144,995,000	902,083,227.37	2,097,612.35	42.06	0.10

***Note*:** *out of the total revenue for the year 2006/07 this much amount of international POS purchase value contributed to the bank's profitability & same for all.

**out of the total revenue for the year 2006/07 this much amount of local POS purchase value contributed to the bank's profitability & same for all.

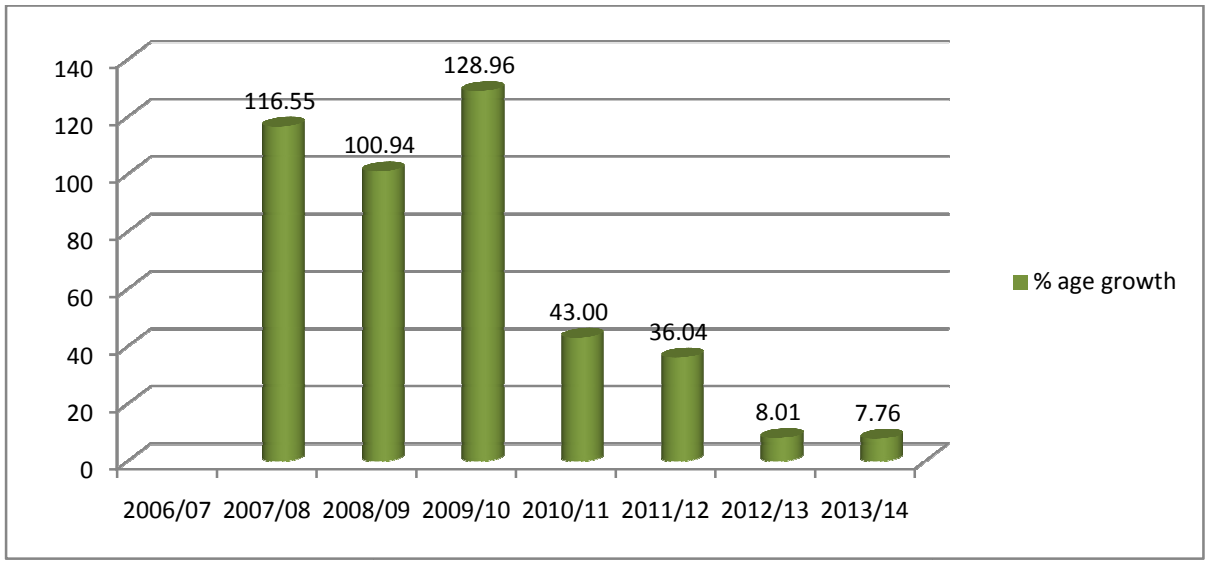
Source: *EBSD Report*

Graph: **4.6.1.** Trend on International POS Purchase Value



Source: *EBSD Report*

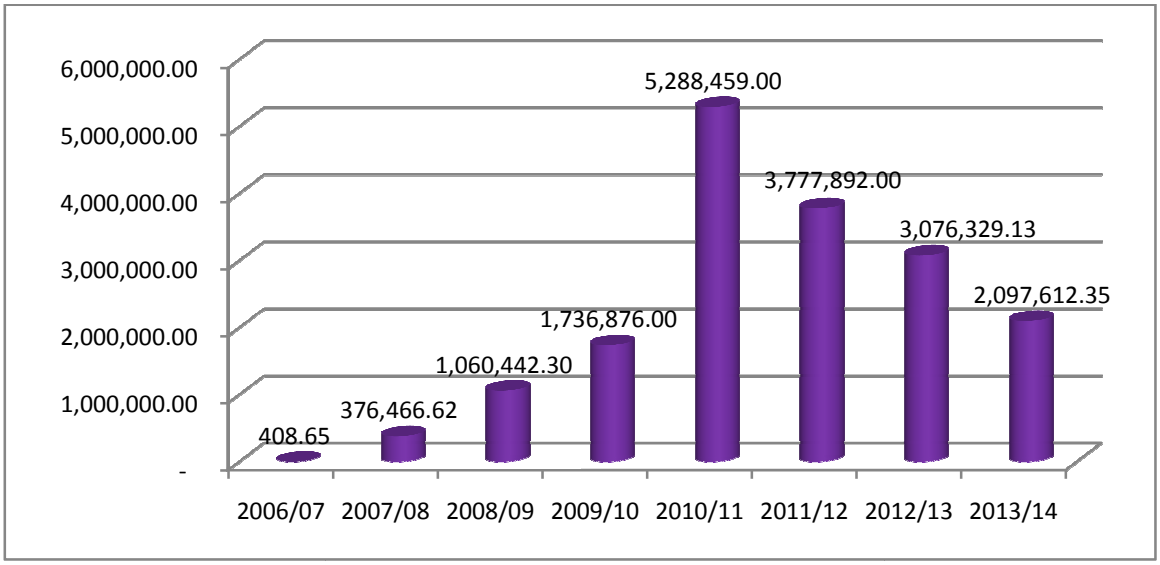
Graph: 4.6.2. %age Growth for International POS Purchase Value



Source: *EBSD Report*

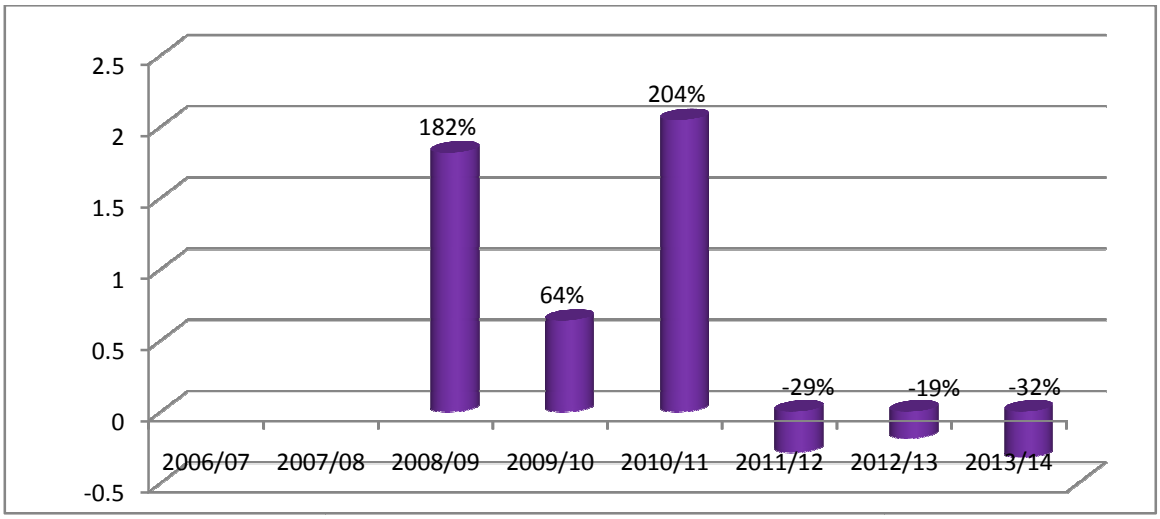
The above graph 4.6.1 showed the international POS purchase value of transaction at a decreasing rate. Similarly graph 4.6.2 showed the %age growth for international POS purchase value throughout the years starting from 2010/11 where there was a sharp decline observed in 2010/11 and ends up with the lowest ever record in 2013/14 i.e. 7.76%.

Graph: 4.6.3: Trend of Local Card POS Purchase Value



Source: *EBSD Report*

Graph 4.6.4.: %age Growth Trend of Local Card POS Purchase Value



Source: *EBSD Report*

The above graph 4.6.3 demonstrated the local POS purchase value of transaction also at a decreasing rate like international POS purchase value. Similarly graph 4.6.4 explained the %age growth for local POS purchase value throughout the years starting from 2011/12 where there was a sharp decline observed in 2011/12 and ends up with the lowest ever record in 2013/14 i.e. -32%.

The worst scenario that the bank experiencing on the performance on local POS purchase which showed a decline in value as well as percentage growth rate throughout the years commencing from the year 2011/12 but with the exceptional performance for the year 2010/11 due to the loyalty campaign conducted. The highest negative percentage is reflected in the year 2013/14 i.e. a decline of 32.0% below zero. The performance achieved for local card transaction on POS purchase in the year 2010/11 justified for the high significance of marketing campaign for local card transactions since the loyalty campaign which was conducted during the period enhanced local card usage performance at merchant locations during the period.

4.8. RESULTS FROM FOCUS GROUP DISCUSSION WITH MERCHANT OFFICERS

The researcher began the discussion by showing appreciation of the six officers about the involvement on this exchange of ideas about the merchant related problems. Therefore the researcher could briefly state one by one underneath.

Based on transaction performing time boundary the bank grouped the merchants into active and inactive merchants. Active merchants were a merchant who did a transaction at least once in three months. These merchants knows the POS operation very well (they have had a daily interaction with POS), they have

stable POS transaction and also willing to give services via POS terminal. Besides these the inactive merchant was a merchant who doesn't have a transaction at least once in three months. These inactive merchants fall in this category because of the problem from the bank side or from their own side. The officers put the major problems from the two angles.

4.8.1. PROBLEMS FROM THE BANK SIDE:

- These days a big challenge for the bank is a system problem called communication failure. This means the communication among POS terminals and dashen bank was failed therefore no transaction was takes place. However the system would deduct or debit from the customer, at this time since the merchant get a communication failure receipt and the merchant assumed no transaction takes place so that he/she tried to do again and if it is successful it would deducted from the customer account twice. So that at the time when the customer check his/her account the same amount would debited from his/her account twice and this would bring a dispute. Most merchants were bad tempered when one of their customers raised dispute to the bank. Certainly these made bad relationship among merchants and the bank. This specific discussion on dispute could also support by the respondents varied responses on the questionnaire moreover the reason for majority of the respondents disagree with regard to motivation by the bank to accept the merchants complain about the merchant services plus importance and concern of the merchant feedback to improve its service.

- While the new merchants all the time complaining about getting POS terminal on time, moreover the existing merchants who want additional POS terminal for the new outlet still complaining the bank for not keeping the promise. In addition to this the replacement for the dysfunctional POS terminal the bank would not took an urgent response to the merchants. As a result of this the merchants have a possibility to go to be the merchants of the other player in the industry. All these three problems of the bank were extremely supported by the respondents on the questionnaire.

- The support section of the bank also needs a high attention. Merchant officers mostly criticized by the merchants regarding the support, especially out of the working hours, weekends and in holidays. The other time could cover by the officers but the support officer available all the days and all the times i.e. 24/7. Evenif this Problem discussed internally with the support officer still not solved. The merchant officer observed about the support officers they were not willing to support problems related with POS terminal instead they wanted to support problem related with the ATM. Sometimes the officer's act as if supporting problems related with POS terminal was not their responsibility. The inquiry related with support were countered above 50% with a common replied i.e disagree. The support issue could be one of failure factor for the satisfaction level of the merchant with the dashen

bank services. Hence some merchants insult the support officer this also made an awful relation with the banks.

- Merchant commission and settlement as well need due attention. Previously dashen bank was solitary in giving POS terminal service. However now many players in the industry, so that merchants complaining every time about commission plus settlement date. Respondents replied on the analysis also provide their intent in digression from the statement regarding commission and settlement date.

4.8.2. PROBLEMS FROM THE MERCHANT SIDE:

The two fundamental problems of the merchant side were the motivation of the merchants to provide service via POS terminal and retreating of training.

- Mostly merchants don't want to purchase using POS terminal instead they insisted their customers to pay in cash so far the POS terminal was working well and also evenif the customer didn't have a cash in his/her pocket they showed to the customer where the ATM would available nearby. The most injured party was the international cardholder because as long as they got the service they should pay in any mode of payment before they were checked out. Sometime international cardholder might have company card therefore unless the merchant lend a hand the customer might suffer a lot. Since they couldn't withdraw money from the ATM by the company card. The guest who came with company card could perform only an online transaction means not withdraw money from ATM. Therefore it implied that most merchants were not willing to provide service via POS terminal. This could assure by the respondent reaction on the questionnaire and the extent to this particular statement showed a threat to how create the cashless society.

- The training aspect also one setback to merchants. There were many participants in the payment card industry, so that Dashen bank would set frequent refresher training to those who need training. As one reason what the officer accept about the training was at the officers were very busy with a routing problems so that the officers couldn't visit the merchants. One of the statements stated in the questionnaire also about the training and majority of the respondents granted their discrepancy with this particular statement. The discussion regarding training plus the result obtained from the analysis implied that particularly merchants those were not performing via POS terminal were the possibility of forgetting how to operate whenever the customers come to their place. Therefore after the group discussions all the officers had the same opinion regarding the problem despite the fact that various problems were from the bank side.

CHAPTER FIVE

5.0. SUMMARY OF THE FINDINGS, CONCLUSION AND RECMMENDATION

The study intended to examine the Role and impact of merchant acceptance towards enhancing bank's profitability in case of dashen bank, through adopting mixed research approach. On the other hand, the purpose of this chapter is to delineate summary of the findings in section 5.1, conclusion in section 5.2 followed by recommendation in section 5.3.

5.1. SUMMARY OF THE FINDINGS

As the results of the analysis depicted in tabular way, nearly every respondents deviate from the point that was raised in questionnaire. The respondents deviate specifically in the following issues: The two points regarding "awareness" both subject matters i.e awareness towards initiating purchase through POS as well as availability of a continuous training with a higher value countered in a varied way. Except one results in "Access POS terminal" all the three mentioned area under discussion i.e acquiring Pos on time, obtaining additional POS on time and replacement for dysfunctional POS terminal the respondents rate with a higher value of their difference from the statement. Still of all the three points stated in "Support from the bank" the two statements that were ended i.e willingness of the contact person to help and immediate support from the contact person of the bank by the time we need their help were countered with a varied inspiration. On the topic of "satisfaction with the bank service" i.e satisfaction from the banks merchant service through weekend, holidays and after working hours, regular functionality of POS terminal and trust when conducting online transactions respondents replied diverse from the stated statement. Regarding "customer bank relation" respondents contented on the imposed service charge, encouraged to give complaints regards with the merchant service, open discussion and solve disputes, settlement time for both local and international card transaction and values and uses of merchant feedback towards improving merchant services.

On the other hand the findings suggest that the respondent were agreed on the following specific statements. These were: Regular updating of application on the POS terminal, Delivering of POS receipt, enough confidence on the banks merchant services, Competency of merchant services as compared with other player in the industry and at last Preference of the merchant to pay via cash than card. Thus, the researcher substantiated that a majority of the respondents varied from the stated statements than the contracted respondents.

The EBSD (electronic banking service department) manager described the dependencies that would hinder the smooth operation on overall payment card activities. Hence, the concomitant effect of the

mentioned point might be one of the reasons for the decline in performance in payment card activities. Therefore the impact on commission described clearly i.e decreased the revenue for the bank.

The eight years data analysis proved that performance achieved for both international and local card transaction on POS purchase. The local card POS purchase in the year 2010/11 justified for the high significance of marketing campaign for local card transactions since the loyalty campaign which was conducted during the period enhanced local card usage performance at merchant locations during the period.

To sum up the review of the findings the two basic research questions supported in different section of the study. As a result of these the researcher confirmed that merchant acquisition enhanced the profitability as well as there were challenges in merchant acquisition in the case of dashen bank. These ideas also supported by the relevant data i.e the contribution of merchant commission from POS purchase value that demonstrated in table 4.6.0 very clearly and the achieved result from the questionnaire plus the merchant officer's discussion. In addition to these the common challenges of adopting e-banking particularly in merchant acquisition in the case of dashen bank was infrastructure, lack of awareness, lack of confidence, behavioral constraint, resistant to the new technology and the emerging of the new player in the e banking industry.

5.2. CONCLUSION

Certainly e banking in banking industry is underdeveloped and therefore this study aims at investigating the role and impact of merchant acceptance towards enhancing banks profitability in case of dashen bank. To achieve the proposed objective two basic frameworks were used, i.e merchant acquisition enhances banks profitability and the major challenges of merchant acquisition. On the other hand both quantitative as well as qualitative (mixed) research approach was employed in the study. Merchant acquisition was one of the services in dashen e-banking department. Ethiopian banking industry faces numerous challenges. E-banking system such as POS, ATM, Mobile banking and other also not well implemented in Ethiopian banking industry. This was due to Low level of internet penetration and poorly developed telecommunication infrastructure, lack of suitable legal and regulatory framework for e-commerce and e-payment, inadequate banking system, high rates of illiteracy frequent power interruption these were some of the challenges that were described in the literature review. In addition to the above mentioned difficulty, the study result also showed that getting POS terminal on time, consistency of the POS operation, support on the weekend, after working hours and holidays, continuous training and also obligatory service charge were other major barriers for enhancing banks profitability in the case of dashen bank.

In general, the findings of this study offer additional insights into what role would merchant acquisition played in the bank's profitability and the major challenges of merchant acquisition. Besides, the understanding of the challenges of implementing e-banking in Ethiopian banking industry might help to identify the best course of actions to encourage its development. It would also be valuable to all banking industries of the country to increase their awareness and understanding of e-banking advantages.

5.3. RECOMMENDATIONS

Most Ethiopians are not aware of the benefits of electronic payments as a result slow to adopt it. E-banking system is a new financial evolution in Ethiopia, but it's an important issue, because it has a great impact on the whole banking system. Banks must have the responsibility to promote about the electronic payments to the society. Dashen bank is an owner in introducing such business in Ethiopia; it is to say that people have no idea about e-banking. At the same time it's difficult and need a lot of efforts to be adopted and accepted by the banking industry, so it need a lot of efforts to succeed. Based on the above conclusion, the researcher recommends the following points:

- For the successful implementation of POS terminal on the merchant location infrastructural development is a major precondition as a result of this the bank should do more on difficulty related with infrastructure. Since building infrastructure are the major opportunities for smooth implementation of the POS terminal at the merchant location. The bank should also give due attention on creating cashless society to discourage the illegal and illegitimate practices with banking industry.

- Customer is the critical determinant for the organization success or failure in a competitive marketplace. Therefore by delivering excellence service the bank should outshine than the other player in the marketplace to retain their customer.

- The bank should harness all the possible potential areas for enhancing merchant related performance in order to generate more revenue for the Bank. POS might be relocated for potential merchants or the bank should enhance marketability through loyality campaign or other means.

- One of the major services offered in e banking is deploying POS terminal on merchant location. To facilitate this service, the bank should give timely training to its merchant (customers that are willing to install the POS terminals at their site) as well as willingness of the contact person of the bank anytime whenever the merchants need help and also readiness to support at the weekend, after working hours and holidays. Therefore this is very vital for the merchants to tackle any problem they face.

- Ultimate focus is required to make terminals the most preferred ones by merchants so as to maintain merchant loyalty and boost transactional performance in every aspect. In addition to this in order to favored by the merchants the bank could easily available the POS terminal whenever the need arise by the merchants as well as replaced the dysfunctional POS terminal.

- Enhancing Area Banks participation on merchant signing, merchant activation, minor troubleshooting knowledge as well as providing periodic training to area banks to support the merchants to provide first line and immediate support that can be handled by the area banks themselves.

- Evaluating the marketability of all the POS terminals and takes appropriate actions on those requiring action. This includes like assessing the potential merchant location to places where they are highly accessible by potential users.

- Merchants were very happy with the regular updating of application on the POS terminal, getting POS receipt timely, confidence on the banks merchant service and also competency of the merchant service than the other players. Therefore this has to be continued to make the merchant beneficiary of the system. Regarding the quality service dashen bank providing to the merchants play pivotal role towards maintaining the positioning in the market. Thus, in order to continually win the hearts and minds of the existing or the newly merchants and maintain the positioning in the market the bank should keep on the aforementioned suggestion from the merchants.

- In order to keep the satisfaction of the merchants on the banks service the bank should give due consideration on its services especially on weekends, holiday and after working hours. Moreover the bank should struggle to fulfil the barriers i.e both internal and external to make a stable POS terminal.

- Regular open discussion, values and uses merchants' opinion must be conducted to get feedback from the merchant. By doing this the bank take corrective actions to improve merchant services as well as building a sound customer and bank relation. Moreover the merchants believe that the bank encouraged offering their complaints regarding the merchant services.

- The bank should take an immediate action regarding service charge impose on POS terminal transaction. Since the new player enter to the market without imposing service charge the bank should also modify the strategy regards the service charge.

- The Banks should pay special attention to "why the customer prefers to pay via cash than card?". To create a cashless society the government should participate on the subject matter since the benefit is also not only for the banking industry but also for the country economy.

- For the successful relation between the bank and the merchants on time settling the merchant account is one factor. Well timed reconciliation helps both the merchant and the bank.

- In order to develop the confidences of the merchants regarding the online transactions still the bank should give training on this additional service called online transaction. When the training delivered to the merchants, the merchants should inform about this service is a temporary solution until the POS terminal is working plus all the expected risk should be the responsibility of the merchants. As a solution the researcher advice the one who called to the bank should give all the detail i.e (card no., amount in birr and expiry date) very carefully.

- Examining the newly born banks which have the e-banking services dashen bank must deliver absolutely preferable services. Most of the competitors are aggressively entering into the market. Since they are new for the service to catch the attention of the merchants they are ready to take any risk as long as their plan is to penetrate into the market. At the same time dashen merchants no more tolerating with the existing unstable working condition. As a result of this the bank's profitability will be affected from the sector. Therefore in order to compete with the participants the service must be free from any obstacles that were described in different section of the study.

- Entering Services Level Agreement (SLA) with Ethio – Telecom; Though it seems doubtful that the SLA is fully applicable due to the monopoly by Ethio Telecom as the sole service provider in Ethiopia, in principle both parties should come to a legally binding agreement so that scope, quality and responsibility shall be defined so as to enable the maximum stretch out for support. In this regards, the bank as a corporate customer, should enforce Ethio-Telecom for signing of SLA as one means of enhancing service delivery quality for its services.

- Collaboration with other commercial banks – With respect to the POS services Dashen bank has remained the only victim of networks failure for long period of time due its pioneering role in the electronic payment business. Now things have been changed and competitors have joined the market and as a result the unilateral effort of the bank has been exerting should have been now joined by others. In this regards, commercial banks should put hands together to influence the Service Provider though their professional association (Banker's Association) so that

collaborative efforts shall be made to demand Ethio - Telecom for enhanced service delivery standard.

- Since no merchant acceptance concept without card productivity. The bank should fix additional card printing machine to give a solution at the time the existed machine malfunction. Since the problem is transitive impact on card issuing, distribution and activation of cards.

- In order to keep the image of the bank as well as encouraging the cardholders who used Dashen terminal at the time of system offline the bank should set up a mechanism to keep a backup or temporary mini system which precedes the transaction as online. Thus when the core system online the transaction on a temporary system automatically goes to be fully online.

- To develop the merchant acquisition for the bank's profitability the bank should strive on the following major challenges: create awareness, build confidence and delivered excellence service. Since these were the foremost cause to the declined performance of merchants.

- The bank should enable the e banking department stand by itself in relation to work related decision making to avoid poor decision making.

- The bank should always update connectivity for the POS terminals for decreasing the communication failure. Since on wireless types of connectivity the bank observed some progress then the bank also find any other options for connectivity to let alone this problem.

- In order to continue on this competitive e banking industry the support section of the e-banking department need a very serious follow up by the top management. In addition to this the support officer should be aware that the support related with POS terminal is also their responsibility.

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ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
QUESTIONNAIRE FOR THE MERCHANT

Dear Participants,

I am working on the paper entitled **"The Role and Impact of Merchant Acceptance towards enhancing bank's profitability"**, in the case of Dashen Bank, as part of completion of my Masters of Business Administration (MBA) at St. Mary's University for the academic year of 2015 G.C. The researcher aims to study various issues of Electronic Payment System. I am, thus, designing this questionnaire to kindly ask your cooperation for providing me with genuine information by completing this questionnaire.

I assure you that any information obtained are purely meant for academic purpose and it will be kept strictly confidential.

❖Please put "✓" in the box provided.

❖The researcher would like to thank you in advance for your cooperation

PART I: BACKGROUND INFORMATION

Gender

Male ☐ Female ☐

PART II: EDUCATIONAL BACKGROUND

Diploma ☐ Above 1st Degree (Masters) ☐

1st Degree ☐ Other ----------

Current position ----------

How long have you been working in your current position?

Below five years	☐	5-10 years	☐
10-15 years	☐	Above 15 years	☐

PART III LIKERT SCALE

Please, indicate your opinion by marking the appropriate box on the five point scale where:

1= Strongly Agree 2= Agree 3= Neither Agree Nor Disagree 4= Disagree 5= Strongly Disagree

		Strongly Disagree (5)	*Disagree (4)*	*Neither agree nor disagree (3)*	*Agree (2)*	*Strongly Agree (1)*
	AWARENESS					
1.	e Bank makes and creates awareness towards initiating chase through Point of Sale terminals.					
2.	The bank provides continuous training on Point of Sale terminal operation to bring operational efficiency.					
	ACCESS POINT OF SALE TERMINAL					
3.	We get point of sale terminal on time.					
4.	We get additional Point of Sale terminal on time if we need.					
5.	The bank provides an immediate replacement for dysfunctional Point of Sale terminals.					
6.	The bank regularly updates the application of Point of Sale terminals.					
	SUPPORT FROM THE BANK					
7.	Contact person of the bank are always willing to help me.					
8.	We get an immediate support from the contact person of the bank by the time we need their help.					

9.	The bank provides stationery materials like receipt on time for POS operation.					
	SATISFACTION WITH BANK SERVICE					
10.	We are satisfied with the banks merchant service through the weekend, holidays and after working hours.					
11.	Point of Sale terminal is working properly at all hours and days.					
12.	We are confident enough with the banks merchant services.					
13.	The merchant services of the bank are competent as compared to other players in the industry.					
14.	We have much trust on the bank when conducting online transactions.					
	CUSTOMER – BANK RELATION					
15.	We are always happy with the service charge imposed the bank.					
16.	The bank always encourages us to give our complaints regarding the merchant services.					
17.	The Bank openly discusses and tries to solve disputes when they arise.					
18.	We prefer the customer to pay us via cash than card.					
19.	The bank settles both the domestic and international card transaction on time.					
20.	The bank values and uses our feedback to improve its merchant services.					

ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

Interview questionnaires designed for the EBSD Manager:

1. What roles those merchant acceptances play for bank's profitability?
2. What are the impacts of merchant acceptance for banks profitability?
3. What are the factors that influence the competency of the e-banking business?

Table: 4.2.3 Current Working Position of the Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Acct	5	3.2	3.2	3.2
AcMgr	1	.6	.6	3.8
AFM	1	.6	.6	4.5
AFOM	1	.6	.6	5.1
Agent	4	2.6	2.6	7.7
ARA	3	1.9	1.9	9.6
CA	3	1.9	1.9	11.5
Checker	1	.6	.6	12.2
Credit A	1	.6	.6	12.8
CreditMg	1	.6	.6	13.5
CreditSu	1	.6	.6	14.1
CS	5	3.2	3.2	17.3
DDGS	1	.6	.6	17.9
DepMgr	3	1.9	1.9	19.9
DutyMgr	1	.6	.6	20.5
FDM	1	.6	.6	21.2
FinHead	3	1.9	1.9	23.1
Finmgr	10	6.4	6.4	29.5
FOM	10	6.4	6.4	35.9
FOR	1	.6	.6	36.5
FOS	1	.6	.6	37.2
GRM	1	.6	.6	37.8
GSA	7	4.5	4.5	42.3
GSC	1	.6	.6	42.9
GSM	1	.6	.6	43.6
GSR	3	1.9	1.9	45.5
HRM	1	.6	.6	46.2
Mgr	1	.6	.6	46.8
Mkting	1	.6	.6	47.4

	NightAud	1	.6	.6	48.1
	NightMgr	1	.6	.6	48.7
	operatio	1	.6	.6	49.4
	RA	2	1.3	1.3	50.6
	Rec	50	32.1	32.1	82.7
	Reserv	1	.6	.6	83.3
	ResHea	1	.6	.6	84.0
	Sales	5	3.2	3.2	87.2
	Sec	2	1.3	1.3	88.5
	SenA/R	1	.6	.6	89.1
	ShiftLea	1	.6	.6	89.7
	Sup	12	7.7	7.7	97.4
	TelOper	1	.6	.6	98.1
	TravelAg	3	1.9	1.9	100.0
	Total	156	100.0	100.0	

- **Acct** ➢ Accountant
- **AcMgr** ➢ Accounts Manager
- **AFM** ➢ Acting Finance Manager
- **AFOM** ➢ Acting Front Office Manager
- **Agent** ➢ Agent
- **ARA** ➢ Account Receivable Accountant
- **CA** ➢ Chief accountant
- **Checker** ➢ Checker
- **Credit A** ➢ Credit Assistance
- **CreditMg** ➢ Credit Manager
- **CreditSu** ➢ Credit Supervisor
- **CS** ➢ Customer Service
- **DDGS** ➢ Deputy Director of Guest Service
- **DepMgr** ➢ Deputy Manager
- **DutyMgr** ➢ Duty Manager
- **FDM** ➢ Front Desk Manager
- **FinHead** ➢ Finance Head

Finmgr ➢ Finance Manager

FOM ➢ Front Office manager

FOR ➢ Front Office Reception

FOS ➢ Front Office Supervisor

GRM ➢ Guest Relations Manager

GSA ➢ Guest Service Agent

GSC ➢ Guest Service Coordinator

GSM ➢ Guest Service Manager

GSR ➢ Guest Service Representative

HRM ➢ Human Resource Manager

Mgr ➢ Manager

Mkting ➢ Marketing

NightAud ➢ Night Auditor

NightMgr ➢ Night Manager

Operation ➢ Operation

RA ➢ Reservation Agent

Rec ➢ Reception

Reserv ➢ Reservation

ResHea ➢ Reservation Head

Sales ➢ Sales

Sec ➢ Secretary

SenA/R ➢ Senior Account Receivable

ShiftLea ➢ Shift Leader

Sup ➢ Supervisor

TelOper ➢ Telephone Operator

TravelAg ➢ Travel Agent

Table 4.3.0. Summarized data for each variables of mean, standard deviation, skeweness and kurtosis

		A 1	A 2	APOS 1	APOS 2	APOS 3	APOS 4	SP 1	SP 2	SP 3	SAT 1	SAT 2	SAT 3	SAT 4	SAT 5	CBR 1	CBR 2	CBR 3	CBR 4	CBR 5	CBR 6
N	Valid	155	156	153	152	155	150	156	156	152	156	154	155	154	154	156	154	152	153	154	156
	Missing	1	0	3	4	1	6	0	0	4	0	2	1	2	2	0	2	4	3	2	0
Mean		**3.72**	**3.72**	**3.91**	**3.66**	**3.82**	**2.51**	**3.72**	**3.69**	**2.18**	**3.88**	**3.85**	**2.46**	**2.13**	**3.76**	**3.57**	**3.61**	**3.48**	**1.86**	**3.61**	**3.53**
Std. Deviation		**1.068**	**1.040**	**1.041**	**1.003**	**1.084**	**.925**	**1.099**	**1.087**	**.986**	**1.074**	**1.008**	**.862**	**.982**	**1.036**	**1.054**	**1.044**	**1.086**	**.990**	**1.050**	**1.038**
Skewness		-.870	-.632	-1.056	-.841	-.997	.676	-1.059	-1.069	1.049	-1.085	-.858	.686	1.038	-.576	-.875	-.700	-.704	**1.284***	-1.189	-.876
Std. Error of Skewness		.195	.194	.196	.197	.195	.198	.194	.194	.197	.194	.195	.195	.195	.195	.194	.195	.197	.196	.195	.194
Kurtosis		-.048	-.785	.485	.065	.281	-.845	.399	.404	.346	.418	.167	-.497	.441	-.798	.069	-.220	-.378	**1.229***	.897	.044
Std. Error of Kurtosis		.387	.386	.390	.391	.387	.394	.386	.386	.391	.386	.389	.387	.389	.389	.386	.389	.391	.390	.389	.386

Note: *, ** Despite the fact that the value for both skewness and kurtosis for the CBR 4 variable is more than one but still it's in the range of normality. Skewness and kurtosis statistics **below an absolute value of 2.0 denote a normal distribution**.

Source: www.scalelive.com: precision and accuracy

Table 4.3.1. Respondent opinion towards the problems associated with Point of Sale terminal by their mean value in descending order.

Variables	Mean	Mean Rank
We get Point of Sale terminal on time **(APOS1)**	3.91	1
We are satisfied with banks merchant service through the weekend, holidays & after working hours **(SAT1)**	3.88	2
Point of sale terminals working properly at all hours and days **(SAT2)**	3.85	3
The bank provides an immediate replacement for dysfunctional POS terminals **(APOS3)**	3.82	4
We have much trust on the bank when conducting online transactions **(SAT5)**	3.76	5
Contact person of the bank are always willing to help me **(SP1)***	3.72	6
The bank makes and creates awareness towards initiating purchase through POS terminals **(A1)***	3.72	7
The bank provides continuous training on POS terminal operation to bring operational efficiency **(A2)***	3.72	8
We get an immediate support from the contact person of the bank by the time we need their help **(SP2)**	3.69	9
We get additional POS terminal on time if we need **(APOS2)**	3.66	10
The bank settles both the domestic and international card transactions on time **(CBR5)***	3.61	11
The bank always encourages us to give our complaints regarding the merchant services **(CBR2)***	3.61	12
We are always happy with the service charge imposed the bank **(CBR1)**	3.57	13
The bank values and uses our feedback to improve its merchant services **(CBR6)**	3.53	14
The bank openly discusses and tries to solve disputes when they arise **(CBR3)**	3.48	15
The bank regularly updates the application of POS terminal **(APOS4)**	2.51	16
We are confident enough with the banks merchant services **(SAT3)**	2.46	17
The bank provides stationery materials like receipt roll paper on time for POS operation **(SP3)**	2.18	18
The merchant services of the bank are competent as compared to other players in the industry **(SAT4)**	2.13	19
We prefer the customer to pay us via cash than card **(CBR4)**	1.86	20

***Note**: * variable with the same mean distinguished by their standard deviation please refer table 4.3.0.*