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A Logit Analysis on the Determinants of the Decision of SMEs to Engage in Online Banking in the Philippines

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Abstract: This paper aims to identify the determinants that affect the decisions of SMEs on whether or not to engage in online banking. It proposes a model aimed at establishing the significance of the determinants identified – cost, time, user-friendliness, usefulness, convenience, security, and responsiveness – and at determining their effects on the SMEs’ decision. To achieve such objectives, the paper uses Logit Analysis. This econometric approach is used following a survey involving at least thirty SMEs, both engaged and not engaged in online banking, as its respondents, chosen by quota sampling. The results show that cost obtained using estimated transaction fees, and usefulness have significant effects on SME’s decision on online banking. The chosen research and sampling design may pose problems with regard to accuracy, generalizability, and reliability of results. It is, hence, suggested that other methods of research and sampling be explored for further verification by those conducting further studies on the matter. The results of the study mostly cover the banks’ need for continuous innovation that the market would accept. As such, conclusions derived will be of assistance in determining how SMEs weigh each factor as against the engagement in online banking and, consequently, provide insight to banks on which factor to prioritize in case of instances requiring tradeoffs. Unlike other studies that expound on individuals’ engagement in online banking and SME’s engagement in online banking for trade, this paper focuses on SMEs’ engagement in online banking in general.

Keywords: bank; online banking; SME; cash management; financial innovation