OWNERS' PERCEIVED TRANSACTION VALUE AND PROFITABILITY OF SELECTED SMALL MEDIUM ENTERPRISES IN MACHAKOS TOWN, KENYA

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ABSTRACT

Small and Medium Enterprises are pivotal economic contributors in any economy. Be it an upcoming or developed one. However, the conceptual linkage between SME owners' perception of digitized transactions and the profitability of this nature of firms remains a puzzle in the academic arena. This study evaluated the effect of SME owners' perception of digital transactions on the profitability of SMEs in Machakos County. More specifically, this inquiry aimed at determining the effect of SME owners' perceived transaction value on the profitability of SMEs in Machakos County. The study was underpinned by the following two theories technology acceptance theory, and profit maximization theory. The study used causal research design. The 4,136 SMEs operating in Machakos Town represented the study population where stratified, convenience and simple random sampling methodology was used to select the sample size which was 414 SMEs. To collect data, a drop-and-pick approach was relied upon whereby all the structured questionnaires were distributed to research participants who were the owners or top officials of the SMEs. To analyze the data collected the researcher relied on both descriptive and inferential approaches. The research findings portrayed that SME owners' perceived transaction value had statistically significant effect on profitability of selected SMEs in Machakos Town, Kenya. To the top management of SMEs in Machakos Town, the research findings will aid them in decision making process such as giving preeminence the dimension of digital transactions as compared to manual approaches for innovation evolution is already up and running in the whole world which is more efficient and effective in executing most of the business transactions. The government agencies involved in promoting the wellbeing of SMEs such as Micro and Small Enterprises Authority (MSEA) will be guided in policy making process of creating of an enabling environment for SMEs. The study outcome will be beneficial to FinTech service providers to recognize the advantages and drawbacks of the online products they supply to their clients such as SMEs so as to tailor make them fully to ensure customer retention in future which will guarantee sustainable profitability amongst SMEs.

Keywords: Profitability; Owners' Perceived Transaction Value; Selected Small Medium Enterprises

INTRODUCTION

The so-called business of small and medium-sized nature (SMEs) are independent businesses with small businesses that are owned or managed by the owner (Margaretha and Supartika, 2016). There are many types of businesses for which there are numerous definition of small business because each country has its definition of SME. According to the Organization for Economic Co-operation and Development (OECD) report (2005), the European based small and medium sized organizations commonly known as (SMEs) are non-subsidiaries. This implies that they are independent businesses characterized by less work than some employees. The aforementioned firms occupy a pivotal role of creating employment, poverty eradication and economic development especially in the emerging economies.

A large constituency of all businesses in the world is majorly the so-called SMEs and this implies that the main economic driver of the global economy emanates from such firms. To be more precise, around 90% of the world economy and more than 50% of employment is associated with SMEs. According to regulations, SMEs contribute 40% of the country's income to the new economy. These figures are higher when SMEs are not included. We estimate that 600 million jobs will be needed by 2030 to absorb the world's largest workforce; This makes the development of SMEs a top priority for many governments around the world. In developing economies, most jobs are created by SMEs; 7 out of 10 jobs are created by SMEs (World Bank (WB) Report, 2022), making up the majority of the workforce in most businesses (95% on average) in many countries.), most of the work.

According to Wijendre (2021), was in support of other authors on the role the SMEs play in the economy for he observed that they dominate most economies and have positive contribution such as job creation, growth of the economy and also originator of inventions and innovations. Similarly, World Trade Organization concluded that majority of these organizations created 60-70% of job openings in the third world countries and at the same time 55% of development of national income was emanating from SMEs (World Trade Organization, Report, 2022). In biotechnology-related fields in Europe, SMEs own around 20% of patents, according to a recent measure. As the world economy faces widespread problems, the government has begun to view small and medium-sized businesses as an important source of economic growth and trade. The importance of SMEs; economic growth, poverty reduction, innovation, job creation, and integration are key (ILO report, 2019).

In particular, many countries rely on SMEs for economic development. As of 2021, small businesses in Canada employ 8.2 million people, accounting for 67.7% of all private sector workers. In contrast, small companies employ 2.5 million people (20.4% of those employed), while large companies employ 1.4 million people (11.8% of those employed) (Tourism, 2020). Small businesses in the UK will continue to generate considerable revenue and contribute to the UK economy in 2022, in the face of new obstacles post-Covid. An analysis by Oxford Economics found that loans to SMEs from the Funding Circle contributed £6.9bn to the UK's economic growth, supporting around 106,000 jobs and costing £1.1bn of the UK Treasury's £10bn levy. He revealed that he provided £40 (Bedford and Currie, 2023).

In the context of the African based economies, Small and Medium Enterprises (SMEs) are the main drivers of economic growth, development, and job creation. Further, the biggest percentage or proportion of all the businesses in the African countries are made up of SMEs which is around 90% International Monetary Fund (African Union Report, 2022). For instance, Ghana's economy consists of small and medium-sized businesses, cooperatives, and international organizations. Together they create an environment in which the business can thrive. The government's strategy to make the private sector the engine of growth is mainly driven by the SME sector. Small and medium-sized businesses contribute to more than 70% of the country's national output (Adjabeng and Osei, 2022). In Rwanda, SMEs have a paramount economic contribution. This sector is the backbone of the economy, making up 55 percent of GDP and 70 percent of total employment (Kamanzi, 2019). If we narrow down our focus from regional to the local economy, it was depicted in several cases in Kenya that 98 percent of all SMEs is associated with 30 percent of the jobs created per year and also a 3% of GDP is from those small firms. Therefore, the Kenyan economy is earmarked by the key contribution originating from SMEs (CBK Report, 2022 and Rice and Yayboke, 2017).

Regardless of the much positive contribution gotten from the SMEs, a contrary report by Kenya National Bureau of Statistics (KNBS, Survey Report, 2018) depicts that on average, four hundred thousand (400,000) SMEs did not celebrate their second year of operation and the fewest SMEs celebrated their fifth year. The Central Bank of Kenya report (CBK Report, 2018) stated that 46% of Kenyan SMEs fail within one year of establishment due to low profitability. On the other hand, digital transformation is becoming increasingly important for small and medium-sized businesses (SMEs) aiming to reach financial sustainability which has resulted to today's rapidly changing business environment. Modernizing the company's operations and user engagement through the integration of the latest digital technologies is a paradigm shift that increases efficiency, productivity, and competitiveness.

According to the Cisco Report (Cisco Report, 2022), global SMEs' spending on digital transformation has reached approximately 7 trillion dollars. Given these changing conditions and expectations, businesses that go digital-first will win. In this virtual competition, just using the latest technology will not get companies anywhere. A change in mindset and approach can help achieve digital transformation (Ariella, 2022).

Statement of the Problem

In most economies, whether developed or emerging ones, SME intervention in terms of the creation of jobs, poverty eradication, and creation of national wealth in terms of GDP is concerned is already been proven over the past few decades. The importance of small and medium-sized enterprises (SMEs) in Japan is widely recognized. SMEs have played a multi-level role in the Japanese economy (OECD Report, 2017). Small and medium-sized businesses have long been significant contributors to job creation and economic growth in the UK (Hu, Mason, Williams, and Found, 2015). In Southern African countries, they are no exception. On average SMEs account for more than 50% of GDP, (Ozdemir et al 2023). In Kenya, SMEs positively contribute to economic growth, poverty eradication, and the promotion of innovation (Njanike, 2019).

This keynote contribution requires SMEs that are financially stable. However, most of these SMEs don’t survive for long due to their financial performance drawbacks. It was reported that in the last five years, from 2018 to 2022, 46.3 percent of companies lost business in their first year of operation. The rate of businesses closed within 6 to 10 years is 11.2%, and the rate of businesses closed within 3 years is 9.5%. A small percentage of businesses fail within 5 years and between 11 and 15 years (3.9%) (Economic Research Report, 2022). In the years between 2019 and 2023, the survival rate for SMEs in Machakos County was registered on average at 10.02% (KIPPRA, Report, 2022). Implying that of the total SMEs in existence within this period, only 10.02 were able to survive.

Past studies (Ozdemir, et al. 2023; Mohammed et al. 2021; Yuvaraj and Sheila, 2018 and Issaka, Bansah, and Kuuder 2022) on the conceptual connection between consumer perception of digital transactions and profitability of most firms have depicted mixed outcomes. From a global perspective, a study by Sudhanshu, Sharma, and Sumanjeet (2021) shows that consumers' willingness to participate in digital marketing mediates the relationship between digital marketing and digital transformation and changing behavior. A study conducted by Lubua and Pretorius (2018) found that business recognition and prospective knowledge significantly predicted small business owners' continued use of Financial Services.

A study conducted in the region of Saning'o, Tanzania (2020) reported that making customers pay for digital marketing has negative consequences. Additionally, in Ghana, a study by Coffie, Hongjiang, Mensah, Kiconco, and Simon, (2021), the finding reveals that all the predictor variables taken together determine the DFPS in Ghanaian SMEs. From Kenya's perspective, several studies (Ng'ang'a, 2021; Kiilu, 2018; Mohammed and Mugambi, 2021 and Ndungu and Moturi, 2020) showed diversity of outcomes.

The conceptual, methodological, and contextual viewpoint of the SME owners' perception of digital transactions and profitability of firms is still wanting with the controversial results obtained by most of the researchers with interest in this domain. The major focus of those scholars was to explain the aspect of intention on the adaptability of fintech services by users (Ozdemir, et al. 2023; Mohammed et al. 2021; Yuvaraj and Sheila, 2018 and Issaka, Bansah, and Kuuder 2022). Again, the focus was on the intention of fintech payment system adoption from the viewpoint of the users on the demand side of the market (Issaka, Bansah, and Kuuder (2022) Coffie, Hongjiang,

Mensah, Kiconco and Simon, (2021) Saning'o, (2020) and ignoring SME owners' perception of digital transactions. Further, most studies (Kiilu, 2018; Kajol, Singh, and Paul, 2022 Najib and Fahma, 2020) did not factor in the end goal results of the firms using the digitized transactions to be profitable. It is against this backdrop that the current study aimed at establishing the effect of SME owners' perceived transaction value on profitability of selected small and medium enterprises in Machakos Town, Kenya.

Research Hypothesis

Owners' perceived transaction value has no significant effect on profitability of selected Small and Medium Enterprises in Machakos Town, Kenya.

Theoretical Review

This is part of the literature review and it is the section that portrays the various theories which underpin the current investigation. For that matter, two of them have been chosen which are more appropriate as compared to others. These are, namely; technology acceptance theory and profit maximization theory.

Technology Acceptance Theory

Originated from Davis, Bagozzi, and Warshaw (1989) as a model for assessing user perceptions or levels of information processing, news, or new technologies. TAT was founded on the convenience in other words its easiness to use and efficiency of new and modern technology. Perceived benefits of technology mean that the user of technology believes that using knowledge or new technology will improve job performance. Easiness to use with reference to new modern technology refers to the easiness with which people adapt and integrate new information and technology (Baker, 2012).

Further, TAT is a crucial theoretical framework for it addresses how each person perceives their adoption of and use of technology. Given that it promotes the idea that several factors influence a person's choice of why, when and how to use a new advanced technology, TAT is frequently used to understand and anticipate consumers' acceptance and adoption of technology. Farzin, Sadeghi, Kharkeshi, Ruholahpur and Fattahi (2021) posit that Perceived Ease of Use (PEOU) alongside Perceived Usefulness (PU) are two critical elements, which are believed to exert influence on how people embrace and employ technology. PEOU measures how people think using a given technology is easy, whereas PU measures how useful and beneficial they think the technology is (Davis et al., 1989).

TAT adds that the perceived ease of use of new modern technology is correlated to its perceived usefulness. Exogenous factors, such as the environment surrounding a person, can affect visual acuity and easiness in use. Therefore, acceptance and adoption of technology is anchored on two important aspects of perception: perceived easiness in use and perceived functionality or usefulness. Technology acceptance is vital in the current study. Prior to achieving the goal of using technology, the problems of SME owners and members who benefit from fintech digital financial services need to be solved. That is when both parties are in agreement that they have perceived the functionality and easiness of use of new technology then adoption of the digitized services can be adopted. With this in mind then, the overall usefulness of the technology acceptance translates to increased profitability.

In the context of this study, TAT serves as a foundation to analyze how different stakeholders including the owners of SMEs perceive and interact with digitized transactions. By assessing their PEOU and usefulness, this research gauges the level of acceptance and adoption of these technologies within SMEs (Sajan and Joseph, 2022). This, in turn, forms a mastery of the depth to which these services are meshed into daily operations, as well as the potential barriers to adoption. By incorporating the TAT framework, the study centers on uncovering the human characteristics that underpin the successful implementation of digital transactions amongst SMEs in Kenya (Kimere, 2022). Understanding owners of SMEs' perceptions and acceptance can provide insights into the overall organizational readiness and capacity for digital transformation. This, in turn, can influence the SME profitability levels throughout concern as they strive to provide efficient and accessible digital transactions to the clients. TAT, therefore, offers a robust lens through which the intricacies of technology acceptance are analyzed within this specific organizational context.

Profit Maximization Theory

Alfred Marshall developed the theory of profit maximization in 1890 (Marshall, 1890). This theory is built on the argument that the main purpose of business is to maximize profits. According to this theory, everyone in an organization acts in their interests to ensure that people get the best results (Young and Makhija, 2014). The theory states that an organization achieves its profits by equalizing revenue to costs. A company's survival depends on the amount of money it produces.

Business owners want profits, so as members of SMEs, business owners have no choice but to do business to get the best profit (Ahmeti and Iseni, 2022). This theory argues that the relationship between materials and products should be carefully analyzed because the goal of an organization is to minimize input while maximizing results (Keen and Standish, 2006). The theory assumes that firms aim to maximize profits and that all firms have sufficient information not only about their costs and revenues but also about other firms (Haron and Ahmad, 2002). Still, the theory has some limitations. For example, the profit maximization principle assumes that a firm determines its maximum profit. However, profit is the most uncertain as it consists of the difference between future income and costs incurred. Therefore, a company can't make more money under uncertain conditions. Moreover, profit maximization is based on the assumption that all firms have optimal information not only about their costs and revenues but also about other firms. But in fact, companies do not have sufficient understanding and accuracy about their operations. Moreover, in the real situation, companies do not care about calculating profit and marginal cost.

Theories are important for current research. Profit is a dominant factor that enhances growth of small and medium-sized businesses. Therefore, owners must create strategies that will enable the company to make profits, and these strategies must be approved on digital trading platforms to be profitable. The level of profitability varies from company to company, and the most profitable companies continue to create a competitive advantage by continuing to expand their operations to generate more profits. Therefore, the theory will reveal the difference between the issue of profitability.

RESEARCH METHODOLOGY

Target Population and Sampling

Sample Size and Sampling Procedure

Population of this research comprised of 4,136 SME businesses from diverse sub-sectors as shown in Table 1 out of which a sample size of 414 was selected.

Table 3.1: Population Frame

Business Category	Population
Education Service Providers	451
Agricultural Processing	536
Manufacturing	203
Merchandized Retailers	2489
Hotels Service Providers	457
TOTAL	**4,136**

Source; Machakos County-Licensing Department, 2023

Sampling Procedure

In this section of the current study, the plan was to select the appropriate sample size from the entire population. Mugenda and Mugenda, (2003) was of the opinion that if the population is large, then the researcher can consider a sample size of at least between 10-30 percent. In this study a 10 percent was selected which was 414 SMEs in Machakos town. Since the population was in strata form, stratified random sampling was used to determine the sample elements which was picked for data collection. To aid in this endeavor, the researcher considered Yamane (1967) so as to identify the desired sample size of SMEs operating in Machakos Town which were conversant with digital transaction-based operations (Yamane formula,1967).

This formula was used to establish the desired sample size (n_i) which was the number of subjects randomly selected from each category of SME firms in Machakos Town. The procedure of how the 414 businesses was selected out of the total population of 4136 is summarized in Table 2 shown below

Table 2: Sampling Procedure

Business Category	Population	Sample	Percentage
Education Service Providers	451	45	11
Agricultural Processing	536	54	13
Manufacturing	203	20	5
Merchandized Retailers	2489	249	60
Hotels Service Providers	457	46	11
TOTAL	**4,136**	**414**	**100**

As per Table 2, out of 4,136 SME businesses, 414 of them was involved in the study. This comprises the following registered SMEs domiciled in different sub-sectors in Machakos Town, namely;

education service providers, agricultural processing, manufacturing, merchandized retailers, and hotel service providers. The SME firms was obtained by using the Yamane formula (Yamane, 1967).

Where; $$ni = \left(\frac{Ni}{N}\right)n$$

where n_i is the number of subjects to be randomly selected from category I,
N_i was the population of category i,
N was the overall population size
n was the desired sample size.

The study made use of stratified, convenience, and simple random sampling techniques. The study adopted the Machakos County laid down coded strata. The study utilized convenience sampling technique to select samples from every stratum that had the three components of SME owners' perceived transaction aspects of value, risk, and social influence. It was appropriate to utilize a simple random sampling method for the selection of the sample for it is not bias.

Data Analysis

This inquiry considered inferential statistics. In this case, one, correlational analysis and two regression analysis were performed.

FINDINGS

Pearson's Product Moment Correlation

Correlation analysis assesses the relationship between the study constructs and the degree of strength to each other. Pearson Product-Moment correlation coefficient is the model that was adopted by the researcher to establish the direction and the strength of the correlation between different sets of variables.
The results were as indicated in Table 3

Table 3: Results of Correlation Analysis

		PRO	OPTV
PRO	Pearson Correlation	1.000	.435**
	Sig. (2-tailed)		.000
OPTV	Pearson Correlation		1.000
	Sig. (2-tailed)		

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

As per Table 3, SME owners' perceived transaction value had positive link with profitability which was strong at 0.01 significant level where by a unit change in SME owners' perceived transaction value resulted to 0.435 units change in profitability with (p=0.000).

Simple Regression

To test the null hypothesis one which stated that "*SME owners' perceived transaction value has no significant effect on profitability of selected small and medium enterprises in Machakos Town,* *Kenya*." Simple regression model was used to predict the dependent variable variances observed and the results were as indicated in Table 4 below

Table 4: Results of SME owners' perceived transaction value and Profitability of Selected Small and Medium Enterprises in Machakos Town, Kenya

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.871[a]	.649	.563	.61871

a. Predictors: (Constant), CA, CE, ICT, MON
b. Dependent Variable: Prof

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	112.509	3	35.409	35.773	.000[b]
1	Residual	34.984	262	.242		
	Total	148.391	265			

a. Dependent Variable: Prof

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.148	.249		.640	.523
	OPTV	.440	.084	.432	5.748	.000

Table 4 depicted that the F statistic of model 1 on the degree to which owners' perception on transaction value affected profitability of selected SMEs in Machakos Town, Kenya. From the results gotten, F assumed 35.773 (p=0.000) value implying that owners' perception on transaction value and profitability model was conceptual at 95% confidence level for it was significant.

At 95% confidence level the overall model was proved to be an appropriate estimator of the alterations detected on the Profitability of Selected SMEs in Machakos Town, Kenya. Further questioning on the facets of goodness of coefficient of determination and test of the slope (β). The results are as indicated as follows;

The coefficient of determination for model 1 from Table 4 mentioned above was (Adjusted R^2 =0.563), which depicts that all the independent constructs describing owners' perception on transaction value namely OPTV explained 56.3% of changes in profitability of Selected SMEs in Machakos Town, Kenya. Whereas, 43.7% of changes on profitability of selected SMEs in Machakos Town, Kenya was predicted by other factors which were not fused in this equation.

After carrying out the test of the slope for predictor variable at hand, the results were as follows; a unit change in SME owners' perceived transaction value resulted to 0.432 unit change in profitability of selected SMEs in Machakos Town, Kenya which was statistically significant and of direct nature with (p=0.000).

The empirical model realized after the data analysis was as indicated below;
PRO= 0.148 + 0.432OPTV

Where;
PRO is Profitability
OPTV is SME Owners' Perceived Transaction Value

Past studies where undertaken which portrayed similar research outcome. Özdemir, Doğru, Kızıldağ, and Erkmen (2023), the focus of the discussion is on technological development and digital conversion strives in the hospitality industry, the printing industry, and the financial impact of digital conversion on the numerous partners. Results portrayed the many ways all Partners can benefit from existing digitalization practices and emerging technologies such as those used by Marketing industry experts. and academic researchers evaluate the industry's past and current digitalization efforts. Sudhanshu, Sharma, and Sumanjeet (2021) identified and analyzed the principals of the digital marketing, its understanding by the online shoppers and their preparedness. After analysis, five main factors affecting understanding were identified among young consumers: (a) personal attitude and motivation, (b) knowledge and ability, (c) perceived value, (d) perception of security, and (e) risk. and adapting to the digital economy.

In Kenya, Mohammed and Mugambi (2021) conducted a study investigating the part played by social influence with the goal to continue using financial technology mobile lending services in Kenya. The research findings portrayed that the aspect of social influence had a straight away implication on perception of security, satisfaction, and intention to continue using mobile credit services. A study was conducted by Yuvaraj and Sheila Eveline (2018) to determine consumer perception of electronic transactions, factors affecting cashless transactions, and decision-making levels of customer information security awareness. Survey results show that most consumers prefer credit/debit cards as the most convenient payment method, followed by mobile wallets. Privacy, safety, and ease of access are factors influencing the cashless consumer market. A study conducted by Saning'o (2020) in Tanzania focused on consumers' attitudes towards businesses themselves regarding digital payments. Survey results show that many customers are happy with this business model because its process is secure, it is an easy way to do business, and it is easy to adopt.

In Indonesia, a study by Najib and Fahma (2020) examined the factors affecting the use of digital payments in Indonesia. SME, micro and medium-sized restaurants. The outcome of this study revealed: perceived value differences, perceived easiness in use, and trust variables mainly impacted on SMEs' viewpoint and opinions regarding the use of digital payments. Further, a study by Xie, Ye, Huang, and Ye (2021) investigated the factors that influence people's acceptance of financial services, more so internet services and wealth management. The results show that perceived value, perceived risk, and social influence were connected to the perception of personal finance.

CONCLUSIONS

Failure to accept the null hypothesis (H_{01}) resulted to acceptance of the alternative hypothesis which states that; "SME owners' perceived transaction value has significant effect on profitability of selected SMEs in Machakos Town." This portrays that when SME owners' perceived Value such as perception on monetary value of a transaction, perception on time value of a transaction and perception on comparative value were put in place this promoted sales growth rate as reflected in increased profitability levels of those selected SMEs in Machakos Town Kenya.

Recommendations

To the top management of SMEs in Machakos Town, they will be key beneficiaries of the research findings for it will aid them in decision making process such as development of policies to adopt digitized business activities which create a complete digital system such that no manual approach in trading. This will ensure that the world of SMEs have upped to the current innovation revolutions which is a new dispensation in the industrialization sphere.

The government agencies involved in promoting the wellbeing of SMEs such as Micro and Small Enterprises Authority (MSEA) will reap manifold benefits such as policy making process of creating of an enabling environment for SMEs. The new knowledge on how each SME component influences profitability will provide vivid guidelines to set policy guidelines to be followed by SMEs especially when working towards job creation. This will enable to indirectly create jobs to many energetic groups by ensuring that no imminent breakdown of SMEs especially when such organizations are not able to sustain themselves financially.

The study outcome will be beneficial to FinTech service providers for they would rely on the outcome of the SME to-profitability connection realized to recognize the advantages and drawbacks of the online products they supply to their clients such as SMEs to tailor make them fully retain their customers which can guarantee them increased market share in the digital world. this will create a sure pathway of shifting from analog to digital platforms which enlarge market share for more new innovations and inventions.

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