

# The impact of technology on sme's profitability



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Despite the Interest In new firm growth, research has found that a limited understanding of the driving mechanisms behind how and when new firms grow (Davidson 2010; Gilbert 2006 McPherson and Holt, 2007; McKenzie and Wicking, 2010). One potential explanation for this limited understanding is the unclear relationship of Seems growth to other tangential phenomena and performance metrics, such as profitability and survival (Davidson; 2009; Shepherd and Wicking, 2009).

These concepts are important for a number of reasons in the context of explaining new firm growth. For instance, exit rates are especially high for Seems relative to Incumbents, and the risk of exit may promote or hinder new firms from trying to achieve growth. Profitability may provide needed positive cash flow and access to resources to fuel growth, but sizeable profits may only come after growth has been achieved (Davidson et al 2009).

Therefore, there appear to be important relationships concerning both the nature and the timing of growth in relation to profitability and survival that need to be better understood (Coda, 2010).

Indeed, these three central concepts (I. E. Growth, profitability, survival) have been highly influential in theories of Seems growth, and industry evolution and dynamics but surprisingly little research has specifically addressed these issues in the same model (Coda, 2010; Davidson et al. , 2009). There are several reasons for this current state of the literature. To begin with, empirical research has to date not been able to adequately mitigate the statistical problems arising from the heterogeneous and dynamic picture of growth (Coda, 2007).

Related, a lack of adequate data on new firms has prevented researchers from unearthing the relationship between growth and other performance outcomes such as survival and profitability (Head and Kerchier; 2009).

Hence, there is an apparent gap between the theoretical concept of growth and the empirical evidence (McKenzie and Wicking; 2010). We present a theoretical framework based on evolutionary economics to untangle the endogenous and complex relationships among growth, profitability and survival, our evolutionary model builds upon the idea that new firms face uncertainty concerning market acceptance and competitive pressures.

Research on the link between (product) innovation and profitability at the firm or establishment level suggests that Innovators are persistently more profitable than non-eliminators (Clerical; 2005). Profitability is complicated by two further issues. First, foreign-owned small and medium enterprises tend to be more productive (and by implication more profitable) than their indigenous counterparts (Griffith; 2004) largely because they are more technologically advanced so, there may be differences between the profitability of indigenous and foreign plants regardless of their product innovation performance.

Secondly there is evidence of a link between foreign ownership and innovation, with enterprise firms are generally more likely to be innovative than indigenously-owned firms in terms of both products and their adoption of new process technologies (Hewitt-Dunderheads). Based on the

background, this study seeks to investigate the impact of technology on SEEMS growth and profitability in Managing area. 2. RESEARCH PROBLEM

Most of the SEEMS (fax, printing, copying, scanning and typing machines and

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the computers related services businesses) do not adapt to the emerging and changing technology.

Most of them are using old age fax, printing, copying, scanning and typing machines and the computers that are slow and not profitable, while few are using current modified machines. The problem for few is that they cannot afford them and their service maintenance although they are profitable and fast to perform service. Are the Seems that are using technology grow more that the Seems that are not using technology? Are the Seems that are using technology more profitable than the SEEMS that are not using technology? .

PROPOSED STUDY OF RESEARCH The aim of this study is to investigate the impact of technology on Seems growth and reparability in Managing area. 3.

1 OBJECTIVES OF THE STUDY To determine if the Seems that are using technology grow more that the Seems that are not using technology. To determine if the Seems that are using technology are more profitable than the SEEM, s that are not using technology. 3. 2 RESEARCH QUESTIONS Are the Seems that are using technology grow more that the Seems that are not using technology?

Are the Seems that are using technology more profitable than the Seems that are not using technology? 3. 3 DEFINITION OF TERMS Theoretical definition Technology- Technology is typically understood as the body of scientific knowledge seed in the production of goods or services (Hill and Jones, 2007). SEEMS- Means a separate and distinct business entity, together with its branches or subsidiaries, if any, including cooperative enterprises, managed by one owner or more predominantly carried on in any sector or sub-sector of the economy.

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National Small Business Act (No. 102 of 1996) Growth- Refers to a positive change in size, often over a period of time. Growth can occur as a stage of maturation or a process toward fullness or fulfillment (Allison 2005).

Profitability- According to Young (2005) reparability is described as the change in net asset on the statement of activities, in other words, it considers whether the organization had an operating surplus, broke even or operated at a loss.

OPERATIONAL DEFINITION Technology- Technology is the utilizations of the fax, printing, copying, scanning and typing machines and the computers that are used in this study to operate the day to day services. Level of technology is going to be measured in terms of how the SEEMS adapt to changing technology and modification of machines (fax, printing, copying, scanning and typing machines and the computers) in the business. Seems- Are the small fax, printing, copying, scanning and typing machines businesses operating around Managing.

The level of SEEMS is going to be measured in terms of businesses that have less than 49 to 200 employees. Growth- Is the level of expansion that may produce goods and service compared from one period of time to another.

This can be measured in terms of how many customers and stores are operating in one or more areas. Profitability- is the money or gains generated from the sales of fax, printing, copying, scanning and typing machines and the computers related services. Profitability is measured in terms of income and expenses incurred in the business. . LITERATURE REVIEW This research

is grounded on the theory of acceptance and the use of technology theory.

Researchers believe that using a particular system would enhance his or her

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job performance Sun and Ghana (2006); Talked and Quasi (2010); Kim, Chant and Guppy (2007). The influence, motivation and encouragement given to an individual employee by peers or in the social network, Virtual network, Talked and Quasi (201 1); Seems face unrelenting pressure from powerful customers and competitors to lower prices and accept shrinking margins on sales.

There is a magnitude of technologies available in the market, and one quickly realizes that there are such a large number of products available, and that exploring all the literature would be a never ending quest. Without a professional opinion in terms of what technology to buy and what not to buy, quality decision making by the management of Seems stays a challenge. Decisions by management without professional support can have a devastating influence on the bottom line (Dyers, Harington, and Barnes, 2009) ND will either enhance competitive advantage or start a slow downward spiral towards business closure.

The extended unified theory of the acceptance and use of technology provides an explanation for the acceptance and use of Acts by consumers (Venerates 2012). It constitutes an extension of the TAUT, designated as TAUT, which was devised to explain the acceptance and use of CIT specifically by the consumer, since the TAUT was originally devised in order to explain the factors that affect the acceptance and use of CIT by employees.

Nevertheless in numerous studies it has been applied in a consumer context. Furthermore, TAUT has become a popular theoretical choice within the field

of CIT (Williams, Ran, Divvied, & Ala, 2011). With reference to the other new construct incorporated into the TAUT, price value, the object is to take into account the difference between the organizational context in which the TAUT model was configured and the monetary cost that the consumer could incur by using the technology (in the consumer context).

Whereas in the organizational context a perceived value is assigned in the TAUT model to the time and effort incurred by the employees in the acceptance and use of technologies, in the consumer context the use of a technology generally has a monetary cost (Venerates 2012) which could influence the consumers' use of technology in purchasing-related activities. In many published studies, factors relating to cost have been incorporated to explain consumer behavior. Boon Mom (2010) said that the technology is changing rapidly so that the trend to use the electronic and online sources appeared as opposite to the printed ones.

He added that using the electronic and online sources has different advantages and disadvantages. 4. 1 Impact of technology on growth of Seems While both revenue growth and cost savings are likely to mediate the impact of IT investments on firm profitability, we argue that IT-enabled revenue growth is a enhancing IT are likely to have greater social complexity, path dependence, and organizational learning, as well as higher barriers to erosion than cost-saving IT.

The social complexity of revenue-enhancing IT stems from interlink ages of such IT with customer-facing business processes and customer life-cycle management, making successful implementation of these projects more

sustainable and making it difficult for competitors to replicate successes (Im and Aria 2008). In contrast, IT focused mainly on cost savings may be easier to deploy because they may be based on transaction automation or information sharing rather than on reconfiguration of business processes that are more often associated with revenue-enhancing IT.

In addition, because it is difficult to attribute the advantages of revenue-enhancing IT to publicly available information, competitors are unlikely to grasp the real sources of competitive advantage and revenue creation potential of these projects. Furthermore, because revenue-enhancing projects are often enmeshed in existing business recesses, they have inherent path dependence, involve significant organizational learning, and may require substantial complementary resources for successful implementation. Therefore, we argue that revenue-enhancing IT is more difficult for competitors to replicate than IT that involves cost reduction.

Together, greater social complexity, path dependence, and organizational learning and higher barriers to erosion of revenue-enhancing IT can provide effective ex post limits to competition and can protect a firm against resource imitation, transfer, and substitution, thereby improving the profit-generating potential of revenue-enhancing IT projects more than that of cost-saving IT projects (Piccolo and Ivies 2005). Wade and Holland (2004) provide indirect support for these arguments by suggesting that outside-in and spanning information systems resources position than inside-out IT resources. 4. Impact of technology on profitability of Seems Many suggest that technology can offer significant competitive advantage to suppliers, enhancing sales and profitability; these benefits are often promoted as the <https://assignbuster.com/the-impact-of-technology-on-smes-profitability/>



reason for its widespread availability (wells, 2004 & Paul, 2010). However, technology extension only leads to additional profit if it is used judiciously. Generally speaking, profit is often viewed as a function of invoiced sales; but in the context of credit sales, this accounting concept needs to be played down in favor of the financial management concept, which sees cash generation as a function of receipts from customers.

Thus profit on credit sales only materializes when cash is collected and any late payments increase costs and therefore decrease profit. Moreover, the judicious use of technology may increase profit and more profitable firms in turn have greater ability to offer technology. Technology is seen as a 'means by which money is transferred from economic entities that have idle money balances to entities which need additional money balances' and is part of the money supply.

Contrary to findings in more advanced western economies (count, 2007) firms in Thailand, Korea, the Philippines and Indonesia reduced the value of account receivables and the period of technology extensions to their customers after the Asian crisis (love and Said, 2010). Unlike the experience in the USA (sheens and Williams, 2011), most firms in do not use technology to generate business by 'lending helping hand' to financially constrained customers (love and Said, 2010). In technology are limited (gainsaid, 2008; love and Said, 2010).

Given the cultural, regulatory and business environment differences an examination of technology from an African perspective is useful and timely. Furthermore, the adoption of international financial reporting standard,

financial instruments, disclosures issued by the international accounting standards board (IAASB), is occurring in many jurisdictions around the world. We expect the collegiality of receivables to be given rater attention, especially in emerging economies, as it poses significant risks to profitability.

Principally IFRS 7 aims to provide the users of financial statements with valuable information about an entity's exposure to receivables risk and how this risk is managed. In so doing, IFRS 7 brings many disclosures previously required only of banks and financial institutions into the ambit of ordinary trading entities (BAD, 2008). The question we pose is whether technology affects profitability and consequently whether information relating to the credit period extended to customers and the incidence of technology is useful to the readers of financial statements 5.

RESEARCH DESIGN AND METHODOLOGY 5. 1 Research design Research design is a specification of the most adequate operations to be performed in order to test a specific hypothesis under given condition, (Bless, Hissing-Smith and Gauge 2006: 71). There are two types of research design namely, qualitative and quantitative. According to Sealskin (2012: 213) qualitative research is a social science research that explores processes that underlie human behavior using techniques like interviews, surveys and case studies.

Quantitative research methodology relies upon measurement and uses various scales which are ordinal and ratio scales, (Bless, et al 2006: 44). With regard to this study, quantitative research methodology is deemed appropriate because data collected will be expressed in numbers and analyses in tests. This study will be using the descriptive type of research

which is a social research with the primary aim of describing a particular phenomenon. The reason for using descriptive research is mainly because data is going to be collected using questionnaires.

The proposed study will make use of a pilot study which is a small study conducted prior to a larger piece of research to determine whether the methodology, sampling instruments and analysis are adequate and appropriate (Bless, et al 2006: 82) and questionnaires which most often are paper-and-pencil set of structured and focused questions, (Sealskin 2012: 147). A combination of dichotomous and Likert scale questions will be used in the survey.

5. 2 Research area and population Population is a complete set of events, things or people to which the research findings are to be applied, (Bless, et al 2006: 148).

This study will be focusing on small ND medium enterprises around Managing rural area in Apollonian province of South Africa. The populations are all Seems in Managing area of Limp province.

5. 3 Sample Size and Simple selection Bless, et al (2006: 185) are of opinion that a sample is a group of elements drawn from the population and which is studied in order to acquire knowledge about the entire population. Sampling is the process of selecting items from the population so that the samples characteristics can be generalized to the population (Cesarean and and non-probability sampling).

The non- probability sampling is deemed appropriate for this study. (Sealskin, 2010: 96) is of opinion that non- probability sampling is where the likelihood of any member of the population being selected is unknown. The proposed

study will use convenience sampling and the snowball sampling methods. The reason for using convenience sampling and snowball sampling is because of the difficulty in obtaining the population of Seems in Managing area of Limp province. 5. 4 Data Collection Research designers have two data collection methods available to them namely primary and secondary data.

Primary data are those that the researcher gathers at iris hand of the problem, while secondary data comes from information already compiled and readily accessible to the researcher. (Du Plisses and Rousseau 2007: 18-19). This study will use both sources of data by the form of literature review from Journals, thesis, dissertations and books together with data obtained from the questionnaires. The study will make use of structured self-administered questionnaires as a method of collecting data. Structured self-administered questionnaires are completed by respondents without assistance of an interviewer, (Bless et al. 006: 116). This method is deemed appropriate because of its high response rate. 5. 5 Data Analysis Analysis of data is a process of inspecting, transforming and modeling data with a goal of highlighting useful information. For the proposed study, data will be analyzed by the use of descriptive statistics, T-test and the chi square goodness of fit test. Hellman (2005: 231) say that descriptive statistics are concerned with the description and/or summary of data obtained for a group of individual units of analysis.

The reason for using descriptive analysis is to narrow data collected from the entire population. The t-test statistics is a test of differences between distributions (Hellman 2005: 231). The t-test will be used to test the

difference between the two means (means of Seems that use technology and those that do not use technology). 5. 6 Validity and reliability Reliability refers to the consistency of responses to a test and validity refers to whether or not the instrument measures accurately that which it was intended to measure, (Duplicities and Rousseau 2007: 225).

There are three types of validity namely, the content validity which is a measure of how well the items represent the entire universe of items, criterion validity which is a measure of how well a test estimates or predicts a criterion (Sealskin 2012: 124) and the construct validity is when an instrument used to measure variables must measure what it is supposed to measure (Hellman 2005: 142). To ensure validity, the research instruments will be pre-tested in a pilot study and self-administered questionnaires are going to be used. The cockroach alpha test will be used to measure reliability. It is a test for a surveys internal consistency.