

## Chapter 35

# Empirical Study of Barriers to Electronic Commerce Uptake by SMEs in Developing Economies

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### **ABSTRACT**

*Electronic commerce (E-commerce) is a technological innovation that enables small to medium enterprises (SMEs) to compete on the same level with their larger counterparts. And it has the potential to improve efficiency and productivity in many areas and, therefore, has received significant attention in many countries of the world. A thorough analysis of the impact of the internet and e-commerce across firms, industries and economies is necessary to separate hype from reality. However, several researchers have called for the investigation of the association between the perceptions of e-commerce and the barriers to its adoption in developing countries. It is however on record that SMEs the world over are faced with significant challenges that compromise their ability to function and to contribute optimally to the respective economies where they operate. This study was conducted in three states of Nigeria (Lagos, Abuja and Enugu states) with the use of interviews to gather relevant data; the aim of which was to understand the challenges which serve as barriers to E-Commerce adoption by small and medium scale enterprises in the Nigerian context. Findings indicates that small and medium scale online present is at best unknown. The most common e-Commerce applications used by most SMEs include but not limited to the use of e-mails for communication purposes and a simple website for basic product information – information contained are usually outdated as most of these websites are hardly updated. Findings revealed, among others, that lack of and total absence of a regulatory framework on e-Commerce security, as well as technical skills, and basic infrastructures are some of the barriers to electronic commerce adoption. The findings however, provide a constructive insight to financial practitioners, governments as well as other stakeholders on the need to give e-commerce a place in all aspects of e-commerce activities.*

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## INTRODUCTION

The internet technological explosion into the world arena coincided with the new millennium and the uses of the internet for commercial purposes have since spiralled out of control. The internet known to have originated from the United States of America has received a worldwide acceptance and is now at par with global products such as coca-cola. The Dot.com companies in the United States such as Amazon and eBay led the way by creating new and distinctive online services where none ever existed. The successes recorded by these organisations paved the way for other organisations including other well known traditional organisations all over the western world such as Wal-Mart, Tesco, and others in retail; Cisco in networking, Dell in the PC manufacturing industry, Well Fargo, HSBC, Bank of America, etc, in banking services. Bakos (1998) stressed that a company without a website today is considered as outdated. The radical changes that have braved the world of business in general and businesses that now run only over the internet could be viewed from a different innovative perspective. The various changes evidenced by its impact have redrawn the boundaries of businesses, thus creating a new but strong world economy never envisaged before and at a much faster rate than the industrial revolutions. Based on these however, the radical changes came with new requirements such as new but strong competitive strategies by organisations, new business models, new products, and new management techniques. The internet compresses time and space making it easier for organisations to expand beyond regional boundaries. Control of commerce as usual has now gone beyond the grips of individual countries and governments of the world. The internet and e-Commerce compared to physical channels have also given consumers more benefits and variety of choices on both products and services. However, many industry analysts attribute the slow growth of SMEs to lack of awareness of e-commerce applications.

Based on the above, the fundamental research question is: *what are the drivers and inhibitors to e-Commerce adoption among SMEs in Nigeria as a developing country?* The paper also explored other factors such as:

1. Lack of capital and skilled personnel;
2. The significant and often understated cost of such e-commerce applications and solutions; and
3. The core structures of SMEs.

This research therefore sets out to establish the reasons for the usage and non-usage of e-commerce among small and medium scale enterprises in Nigeria. This will however be accomplished through the use of interviews as a primary data collection technique in selected regions of Nigeria.

### **What is Small and Medium Scale Enterprise?**

Small and Medium Scale Enterprise (SME), an economic coinage, have been defined in various forms and shapes. Quantitative view of SME has been premised mostly on the turnover or assets and number of employees, while qualitatively, it has been viewed based on how the company is organised. However, a number of definitions have sprouted from various angles including government agencies.

According to the United States Small Business Administration (SBA), cited in Saffu, et al (2008, p.398), which is based on section 3 of the Small Business Act of 1953:

*An SME shall be deemed to be one which is independently owned and operated and which is not dominant in its field of operation.*

By comparison, the United Kingdom took a more quantitative approach (Harindranath, et al., 2008 p. 94), defining SME as:

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