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Determinants of E- Commerce in Indian MSME Sector

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Abstract: *The use of electronic commerce (e-commerce) in business transactions, now a priority for many firms, is attracting increasing attention. As the world economy integrates and reduces its trade barriers, some of the greatest opportunities for small businesses will derive from their ability to participate in regional and international markets. Adopting information and communications technology (ICT) is considered a means of enabling small businesses to compete globally through improved efficiency and closer customer and supplier relationships. Information and communications technology may also help small and medium sized enterprises (SMEs) enhance their competitiveness. Electronic commerce (e-commerce) is widening the concept of business from a simple transactional approach to a broader and more complex concept of inter-firm co-operation. Amidst market globalization, growing interpenetration of national economies and the increased interdependence of national economies, e-commerce adoption remains a vital yet complex and elusive phenomenon, with very little known about its determinants. This study identifies the major determining factors in Indian small and medium sized enterprises' (SMEs) e-commerce adoption, offers practical implications, and indicates the actions required. This research integrates technological, organizational, and environmental determinisms with social constructivism to build a practical framework for understanding e-commerce adoption among SMEs in India . Structural equation modeling was employed for data analysis.*

Keywords: Commerce Adoption, Government Support, Enabling Conditions, Managerial Support

I. INTRODUCTION

E-commerce is changing the shape of competition, streamlining interactions and payments from consumers to companies and from companies to suppliers, while making marketing more flexible and accessible, lengthening business hours across the world. E-commerce offers many benefits, particularly productivity gains, transaction cost reductions, efficient information sharing between organizations within and across industries, and automatic product identification. E-commerce also plays a significant role in bridging the digital gap between developed and developing economies through improved access to information, knowledge, and expertise. E-commerce also allows global businesses to extend their supply chain and engage in international trade more efficiently and effectively regardless of location. Consequently, e-commerce can enhance the competitiveness of developing countries and reduce poverty (Qureshi and Davis, 2007).

Nevertheless, the competitive business environment, and the need to survive in it, make SMEs'adoption of e-commerce inevitable: SMEs mustadopt innovative and informed e-marketing strategies to remain distinct, profitable, and successful indomestic and international markets. The Internet has become so important that its usage should form an integral part ofSME operations in developing countries. He furthermaintains that the Internet has become a pervasiveaspect of ICT, which is radically changing the traditional forms of trade and providing windows ofopportunities that enterprises, especially those fromdeveloping countries, can exploit. This is further affirmed by the Nielsen Company (2008), which claims that more than 85% of theworld's online population has used the Internet tomake a purchase.

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II. CONTRIBUTION OF MSME SECTOR TO INDIAN ECONOMY

MSMEs, credited with generating the highest rate ofemployment after agriculture, account for a major share inindustrial production and exports. This sector accounts foraround 45% of the total manufacturing output; 40% ofIndia's total exports and contributes around 8% in India'sGross Domestic Product (GDP). It employs about 59 millionpersons in over 26 million units across the country. There areover 6000 products ranging from traditional to high-techitems, which are being manufactured by the MSMEs in India.

The total number of MSMEs operating in India significantlyincreased 207% per cent between 2000-01 and 2009-10 andthe sector registered a sterling 21.52% compounded annualgrowth in terms of production. The employment generatingpotential of the sector has also grown at an annualcompounded rate of 11.74% in the last decade. Nearly 50%of the MSMEs are owned by disadvantaged groups ofsociety.

Manufacturing sector contributes around 15% in India'sGross Domestic Product (GDP). In that MSME sectorcontributes 8% in India's Gross Domestic Product (GDP) &45% of the total manufacturing output of India.National Manufacturing Policy envisages increasing theshare of Manufacturing in GDP to 25 % over the next decadeand generating additional 100 million jobs in manufacturingsector through an annual average growth rate of 12-14 % inmanufacturing sector. MSME sector being the major base ofmanufacturing sector in India. This would call for quantumjump in plan allocation for the sector during the 12th Plan toaddress major bottlenecks facing the sector.

This important sector plays a vital role within thedevelopment of economy's infrastructure by providingemployment generation, innovation and wealth creation.MSME sector contributes not only to higher rate ofeconomic growth but also in building an inclusive andsustainable society in innumerable ways through creation ofnon-farm livelihood at low cost, balanced regionaldevelopment, gender & social balance, environmentallysustainable development and to top it all, recession proofingof economic growth, which the sector has proven time andagain. SMEs are significantly contributing to industrial,economic, technological and regional developments in alleconomies, developed and developing.

III. E-COMMERCE IN INDIA

Electronic commerce (EC) or e-commerce implies doingbusiness activities for products and services & other taskselectronically rather than by physical exchanges or directphysical contact. It is an Internet, Information &Technology-based process. A more complete definition is:E-commerce is the use of electronic communications anddigital information processing technology in businesstransactions to create, transform, and redefine relationshipsfor value creation between or among organizations, andbetween organizations and individuals.E-commerce not only permits but facilitates an increase inproductivity enabling the creation of new relationships withcustomers, distributors, suppliers and other strategic partners.

Schmid [9] details the benefit of Electronic Commerce to belower cost of trading, faster and better-informed businessdecisions, and less importance of geography. Other authorsmentioned various advantages relevant to Small-andMedium-sized Enterprises such as the "leveling of theplaying fields" with the big businesslocationindependence time independence the ease ofcommunication and ability to achieve competitiveadvantages for the businesses. E-commerce permitsorganizations to access potential customers and suppliers viathe web. A number of the most important advantages ofe-commerce offers are: expanded marketplaces, potentialvalue reductions, productivity enhancements, customizationof product and services, twenty-four-hour trading andknowledge exchange and management.

IV. REVIEW OF LITERATURE

Turban et al. (2008) defined e-commerce as the process of selling, buying, transferring, or exchangingproducts, services, and/or information through theInternet. They distinguished between Internet andnon-Internet e-commerce, whereby the latter involvesbuying and paying for services or products using suchmethods as the smart card through vending machinesor transactions via networks such as local area networks (LANs).

Huy and Filiatrault (2006) claimedthat e-commerce is any economic or business activitythat uses ICT applications to enable the buyingand selling of products and services, facilitating business transactions between and among businesses,individuals, governments, and other organizations.

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Molla and Licker (2005) arguedthat businesses should take advantage of e-commerce's opportunities and expand their market reach,gain from economies of scale, become more profitable, and contribute to economic development.E-commerce has changed the face of retail, services,and global business strategies. It will continue to influence how companies sell and market their products, aswell as how people make their purchases.

Porter (2001)argued that e-commerce allows economic actors to significantly reduce their transaction costs, encouragingthe use of markets to organize economic activities,improve company performance, and promote consumption. Effectively utilized, then, e-commerce canprovide opportunities in international trade and facilitate growth and economic development.

Mitra Abhijit (2013) suggests E-Commerce has unleashed yet another revolution, which ischanging the way businesses buy and sell products and services. New methodologies have evolved.The role of geographic distances in forming business relationships is reduced. E-Commerce is thefuture of shopping. With the deployment of 3G and 4G wireless communication technologies, theinternet economy will continue to grow robustly. In the next 3 to 5 years, India will have 30 to 70million internet users which will equal, if not surpass, many of the developed countries. Interneteconomy will then become more meaningful in India. With the rapid expansion of internet, Ecommerce is set to play a very important role in the 21st century, the new opportunities that willbe thrown open, will be accessible to both large corporations and small companies.

Chanana Nisha and Goele Sangeeta (2012) propose that the future of E-Commerce isdifficult to predict. There are various segments that would grow in the future like: Travel andTourism, electronic appliances, hardware products and apparel. There are also some essentialfactors which will significantly contribute to the boom of the E-Commerce industry in India i.e.,replacement guarantee, M-Commerce services, location-based services, multiple payment option,right content, shipment option, legal requirement of generating invoices for online transactions,quick Service, T & C should be clear & realistic, the product quality should be same as shown onthe portal, dedicated 24/7 customer care center should be there.

Awais Muhammad and Samin Tanzila (2012) indicate that use of internet has made theworld a global village. The use of Internet has reduced the distances and brought the peopletogether. A nation's back bone is commerce and it will be strengthened if backed by electronictools in which e-commerce plays a vital role. The important feature in ecommerce is privacy whichnot only increases competitive advantage but confidence level also. E-commerce brings sellers andpotential buyers at the distance of one click and it saves time as it is cost effective, as E-commerceis becoming key to success.

Dutta and Dutta, (2009) found tangibles have the highest impact on overall customersatisfaction. The largest discrepancy between the customer expectations and perceptions is in termsof empathy which includes Bank locations and ATM machines in convenient places and telebanking and internet banking facility. The study regards this a major source of concern for Indianbanking industry as a huge service quality gap exists for all the banks in this category.

Blasio (2008), in his study does not find the support for the argument that the Internetreduces the role of distance. Internet usage is much more frequent among urban consumers thanamong their non-urban counterparts. The use of e-commerce is basically unaffected by the size ofthe city where the household lives. Geographically remote consumers are discouraged frompurchasing goods by the fact that they cannot inspect them beforehand. Leisure activities andcultural items (i.e., books, CDs, and tickets for museums and theaters) are the only goods andservices for which e-commerce is used more in isolated areas. Finally, e-banking bears norelationship to city size. In choosing a bank, non-urban customers give more importance topersonal acquaintance than do urban clients, partly because bank account holders in remote areasare more likely to have taken out a loan from their bank.

Ozok et al (2007) identified ten items contributing to overall consistency in e-commercecustomer relationship management. These items are consistency of transaction steps, consistencyof Web site design, consistency of navigation, consistency of promotions, consistency of in-stockindications, consistency of product variety, consistency of fraud protection, consistency of productguarantees, consistency of overall site fairness, and consistency of return policies.

This list ofconsistency items includes three usability items. It can be concluded that sites with good usabilityhave a better chance of having successful CRM implementation in their business. Consistency ofpromotions, in-stock indications, product variety, fraud protection, guarantees, fairness, and returnpolicies indicate mainly that customers in

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fact demand a high level of security-related informationas well as trustworthiness and high ethics on the shopping site to become regular customers of evendors. Customers demand equal and consistent treatment concerning products and product related services. The findings indicate that the level of security and guarantees presented tocustomers has a significant positive effect on customer retention and customer acquisition.

Singh and Lalwani (2007) in their work on internet banking suggest that internet bankinghas facilitated the banking relationships with the customers. It is now widely accepted in thecountry because of the fact that it is the cheapest source of providing banking services. As moreand more banks will succeed in online banking, a day will come when it will reach a commonplace as ATM's. It has not only increased the banking transactions but also has reduced the timeand cost factor. It has brought revolution in the banking industry

V. OBJECTIVES OF THE STUDY

- To study the determinants of e- commerce in Indian MSME sector
- To study the purpose of determinants of e- commerce in Indian MSME sector
- To compare the usage of determinants of e- commerce in Indian MSME sector
- To provide an uptodate and comprehensive review of determinants of e- commerce in Indian MSME sector

VI. RESEARCH METHODOLOGY

The Research has been based on conceptual research work. A depth study was carried out.This paper discusses the legal aspects related of study determinants of e- commerce in Indian MSME sector tounderstand the depth of determinants of e- commerce in Indian MSME sectorthe valuesthat e commerce holds and to understand the importance of determinants of e- commerce in Indian MSME sector

Secondary data has been used and studies from the previous researchers to identify variousaspects related to the topic. Literature review and introduction has been preparing with thehelp of research paper publications, article, and other internet sources.

VII. FINDINGS AND DISCUSSION

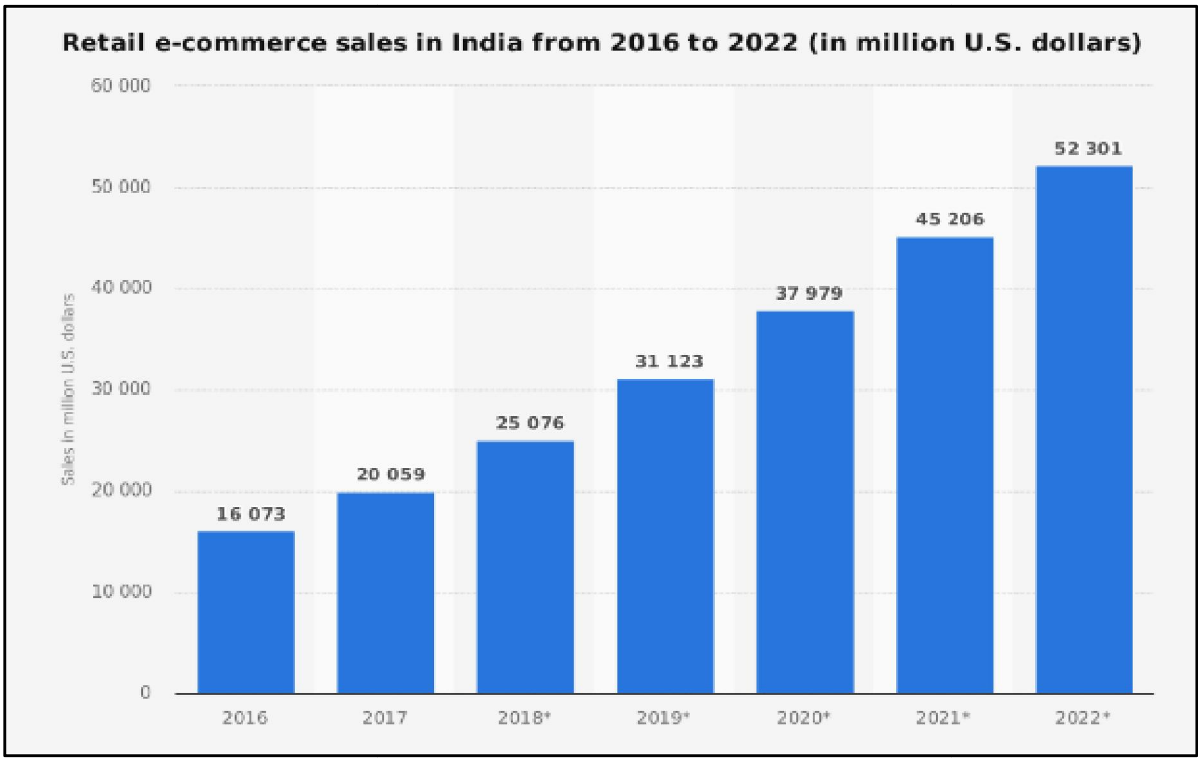

FIGURE: RETAIL E COMMERCE SALES IN INDIA

Source:https://icowebsolutions.com/the-future-of-ecommerce-websites-in-india/

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The above graph shows the growth of e commerce in India over the period of 2016 to 2022.that has shown immense growth over these periods.

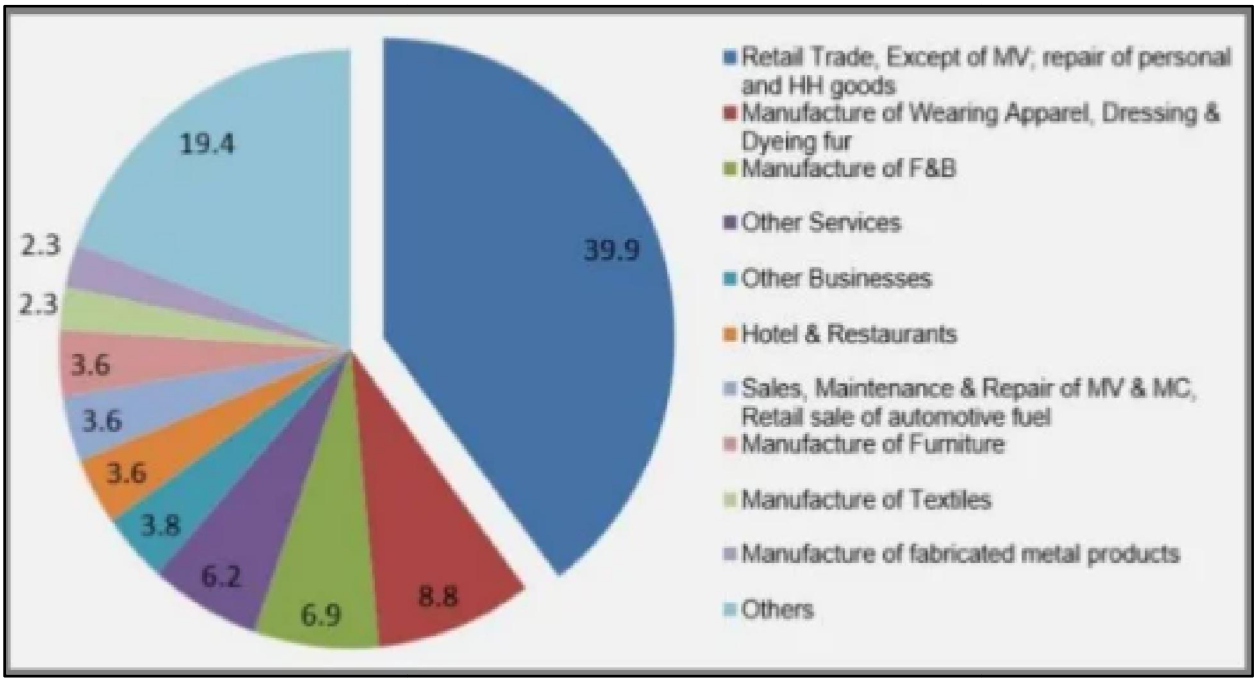

Figure: KEY INDUSTRY SHARE FOR MSME IN PERCENTAGE.

Source:https://www.slideshare.net/ResurgentIndia/msme-sector-in-india-the-engine-of-growth-part-3The above graph shows that key industry share over India

VIII. CONCLUSION

Technology Adoption is defined as the first use or acceptance of the technology or productthat appears. Studies on technology adopts intended to predict, understand, and explainvariables influencing adoption behavior at individual as well as organizational levels to acceptand use technological innovations. Adoption of Information technology (IT) enables SMEsto take competitive advantage in global market, IT can give SMEs acompetitive advantage in new economic era, especially in product marketing. The use of IT asa media for marketing and promotion will not be separated from internet. Internettechnology for sustainable trade can be done using e-commerce. Whencompared with e-commerce sales in countries in ASEAN, Indonesia is the largest.However, from use of e-commerce for sales, MSMEs have not been able to be implementedproperly, even increase in use of e-commerce for business processes is mostly driven by largecompanies.

As discussed in the previous chapter, it can be concluded that the TOE framework can beused to determine factors that influence e-commerce adoption by SMEs. From previousstudies it is known literature on technology variables can be measured as indicators of relativeadvantage, perceived complexity and compatibility technology. Organizational variables canbe measured by indicators of top management support, information technology knowledge andorganizational size. Whereas in environmental variables can be measured by indicators ofcompetitive pressure and trading partner’s pressure. In this study, it can also be seen thatalthough many studies that reveal technology, organization, and environment variables have asignificant influence on e-commerce adoption, there are also several other studies,some of which state that technology, organization, and environment variables have notsignificant influence on e-commerce adoption. The results of previous studieshave different findings and are mutually opposite between one study and another. It is hopedthat from the different findings, additional research can be carried out to determine the factorsthat influence technology, organizational and environmental variables on e-commerceadoption for SMEs.

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