

Role of E-commerce in Export Development for SMEs in Developing Countries

Asadullah Khaskheli^{1*} Yun Jun² Hameed Akhtar Sanjrani³

School of Management Science, Wuhan University of Technology, Wuhan, P.R.China, 430070

Abstract

Ubiquitous Information and Communication technologies use has driven E-commerce growth at a rapid pace for the last many years. It has expanded at double the rate of physical retailers for the last decade. SMEs despite being crucial to world economies owing to their flexibility and innovativeness, a large number of them only operates domestically especially in the developing countries. Export can be very profitable for SMEs in developing countries but poses challenges due to factors such as, lack of information and unclear customs clearance procedures, language barriers, higher shipping cost, distant and unfamiliar customers with different cultural background. E-commerce can help reach new customers globally, at a lower cost, faster pace and without intermediaries hence will lead to export growth.

Keywords: E-Commerce, Export, SMEs, Developing Countries

1. Introduction

Tremendous growth in the use of Information and Communication technologies (ICTs) has changed the traditional ways of doing business with new digitized economy. The use of computers and smart phones with internet has increased multiple times in the last two decades. According to World Bank statistics the number of internet users worldwide increased from 6.8 percent in the year 2000 to 40.7 percent in the year 2014. This huge increase in the internet users stimulated global E-commerce industry to grow drastically (Alyoubi, Adel A 2015). For this study E-commerce refers to “sale and purchase of product, service or information over the internet or other computer networks (Kalakota, Ravi, and Andrew B. Whinston 1997). Scholars believe that e-commerce has tremendous potential to contribute in economic growth more so for developing countries than the developed ones (Lituchy, Terri R., and Anny Rail 2000; Kshetri, Nir B 2001). E-commerce benefits SMEs in reducing transaction cost, eliminating intermediaries and offering more convenience of selection from large collection at the storefront (Molla, Alemayehu, and Paul S. Licker 2005). Small and Medium Sized Enterprises (SME's) constitute majority share in developed as well as developing world economies and are therefore major drivers of growth. There are some serious constraints which hamper the growth of SMEs and the biggest of them is very limited access to finance and the requirements are tough to meet for many with around 50 percent of the SMEs in developing countries putting it as their number one constraint. Financial institutions are reluctant in advancing finances to SMEs believing these businesses have inadequate risk management system and higher transaction cost. Support from government can bring significantly positive results for SMEs in developing countries to take advantage of E-commerce in reaching out to new customers at home and abroad.

Export can offers numerous benefits to SME firms but majority of these firms abstain from entering exports due to several impediments such as lack of information, complex custom clearance procedures, higher shipping costs and language barriers etc. (Cardoza, Guillermo, et al 2016) these can be reduced or eliminated through the use of E-commerce. SMEs face challenges in export mainly due to lack of information and ambiguity involved in the government policies and complex customs clearance procedures. Other challenges include language barriers, higher shipping cost and hurdles with customers. Some of these major impediments can be overcome with the help of E-commerce platforms.

2. Literature Review

Literature review provides insight on existing findings on subject in hand. In addition, this helps the researchers to start work from where it ended before. Therefore, a thorough, well planned and well-structured study of extant literature helps to understand the very nature of referred subject.

2.1 E-commerce in Developing countries

Although the internet usage has grown rapidly in the last 2 decades stimulating growth and creating more opportunities for global as well as regional E-commerce, however the rate of growth and acceptance of E-commerce differs in different countries of the world. The increase in the use of (ICTs) especially smartphones

along with other computing devices has led E-Commerce growing at least at double the rate of retail sales for the last decade. E-Commerce is believed to be crucial in facilitating SMEs in developing economies to take more advantage from the international trade (Savrul, Mesut, Ahmet Incekara, and Sefer Sener 2014; Terzi, Nuray 2011). As it saves the costs involved for physical store such as building rent, employee salaries, insurance expense and other infra-structure costs necessary for retailers. All that is required by E-Business is internet connection and a web based storefront. The cost of running an E-Business is much lower than a physical store hence the profit is much higher. SMEs can benefit hugely from E-commerce adoption in their business growth strategy (Kurnia, Sherah, et al 2015). According to International Trade Forum, E-Commerce in China has grown at a rate of 120 percent during the period 2004 – 2013.

In the developing countries infrastructure has to be built and improved for E-commerce to grow at a decent rate, telecom infrastructure, fiber optic cables need to be installed for reliable internet connectivity. Even the physical infrastructure is also very important for the E-commerce to be successful because even if the order is placed online using the information infrastructure but delivery for the products has to be made physically using the physical infrastructure like roads, bridges and other transportation means. Further, non-availability of secure payment system gateways is also one of the main barriers to E-commerce development in developing countries. Even countries like Egypt which is a very popular international tourist destination, local SMEs are unable to receive online payments securely.

E-Commerce based SMEs need to be careful with the complete order cycle from order placement to final delivery and after sale service to give their customers pleasant experience and build loyalty. The most important factors upon which E-Commerce seller is assessed is, quality product/ service, quick shipping, online order and shipment tracking update, free and easy return policy, communication should be smooth and timely and availability on chat, phone and email should be ensured.

Developing country SMEs in the tourism industry have particularly enhanced their ability to advertise on the internet and carrying out transactions directly with global clients. Online retailers also need to offer gift cards and other incentives to frequent buyers on their storefronts to make it attractive for them to be returning buyers.

2.2 SMEs in Developing countries SMEs are essential part of economic development in developing countries and play a pivotal role in growth, job creation, innovation and prosperity (Wang, Yao 2016; and Sin, Kit Yeng, et al. 2016). According to the World Bank statistics SME's represent more than 95 percent of firms in most countries and create more than 50 percent employment opportunities in the private sector. Flourishing private sector is necessary for the development of national economy. Due to lack of attention towards SMEs from the government and highly restricted access to finance by the financial institutions Wang, Yao (2016), they lack the capital required to sustain and grow. Other challenges include infrastructure such as roads and bridges, railways, in efficient transportation system which make on time delivery of goods very difficult. In addition the complex customs clearance process and high cost of international shipping are some of the main obstacles in the growth of SMEs in developing countries. Most SMEs in developing countries are using internet regularly for communication however, for E-Commerce it is used the least.

2.3 Export for SMEs in developing countries

Exporting is the simplest and the fastest way to enter international markets as it offers greater flexibility, consumes fewer organizational resources thus poses lesser risk to the business (Leonidou, Leonidas C., et al. 2007). SMEs are the main players in exporting local products and services in global markets (Ensari, M. Şebnem, and Melisa Erdilek Karabay 2014). There are other ways of entering international markets also, such as Joint-ventures, licensing, contract manufacturing etc. but they are less suitable for SMEs as they require more resource deployment in terms of financial resources, human resources and managerial commitment. Despite numerous benefits that export can offer to these SMEs very few actually take this step. Some important motives behind SMEs considering entry to exports are: achieve extra sales, utilize idle production capacity, excess inventory or just the company plans to expand internationally based on excellent product or service feedback from the local market. Conversely, economic conditions in the domestic market may force SMEs to reach out to foreign markets, this could be due to several factors, economic down turn in the domestic market, business cycle approaching recession, the competition gets intense, and the profit margins in the domestic market are shrinking or pursuing an unsolicited order from overseas (Leonidou, Leonidas C., et al. 2007). All these factors stimulate export and export stimulation has been a focus of study for many researchers since the 1970s. Government support is instrumental in helping SMEs in the developing countries to export, be more competitive in the international market. Government can build necessary infrastructure, such as roads, bridges, railways, efficient transportation network so that the firms can base their export decisions reliably and stay competitive in the world.

Further, research shows that exporting SMEs and E-commerce adoption are significantly related (Ueasangkomsate, Pittawat 2015) and that E-commerce adoption brings efficiency, effectiveness, innovation, competitiveness and drive for growth (Ollo-López, Andrea, and M. Elena Aramendía-Muneta 2012; Steinfield, Charles, et al. 2012; and Consoli, Domenico 2012) and can help SMEs to achieve efficiency, effectiveness, competitive advantage in going global (Castleman, Tanya, Marina Cavill, and Les Terrill 2002). Hence SMEs adopting E-commerce will leave the non-adopting SMEs far behind (Rahayu, Rita, and John Day 2015).

3. Conclusion

It can be drawn from the literature above that E-Commerce can help SMEs in developing countries to overcome certain barriers which prevent them from entering exports. SMEs that lack information and are unfamiliar with complex customs procedures can for instance join some E-Commerce platform like Alibaba, eBay, Amazon to reach out to the customers worldwide. Through Global Shipping Program (GSP) these big E-Commerce giants smaller firms can get the shipping rates much lower than the normal rates hence SMEs can benefit from this program by registering with them. Further, SMEs can gain more credibility as sellers in the eyes of local and overseas customers. Selling through such big E-commerce platform brings in various advantages to both buyer and seller, such as, return and cancelation of order policy is well defined and clear, payment system is simple and secure, and outreach is global at lower shipment cost and without the hassle of customs clearance. Alternatively, SMEs can also have their own specifically designed website to attract and serve customers independently.

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