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Impact of e-commerce on small scale industries in global economy

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Abstract

With the emergence of a global economy, e-commerce is becoming a strong catalyst to expand business activities and build an active customer base. It is not very surprising to see the revolutionary way in which e-commerce has helped the business industry. The integration of information and communication has totally changed the relationship between the organizations, the consumers and those who act as mediators between the organizations and the consumers. The use of information technology has not only enabled greater consumer participation but has also helped in mass communication along with reduced costs. Small scale industries, or what in the popular parlance are called SSI, has long been accepted as the engines of economic growth and development. The impact of SSI in the global economy is a very crucial role in the construction of a society which is free of poverty. The reason is that they not only provide ample job opportunities of e-commerce to the different strata of the society but also ensure the flow of money across the various levels of society. Help of e-commerce SSI also play a very critical role in the world economy by contributing to the employment scenario along with the input and output. There are certain points to be understood here. As per a report published in 2015, approximately 600 million jobs would be required worldwide over the next 15 years. Predominantly, most of the formal jobs that are available in developing markets are created by the SSI. That is almost four out of five jobs available in the market. Despite playing a vital role in the development of the economy, it is observed that around 50% of the SSI lack access to finance or capital investment. At any given point of time, the formal SSI create around 33% of the national income and 45% of the total employment in developing countries. When we include the informal SSI in the list, the numbers rise even higher.

Keywords: E-commerce, SSI, global economy, world economy, employment

Introduction

Commonly defined as the spread and connectedness of production, communication and technologies across the world, Globalization has also involve the interlacing of economic and cultural activity. In the recent period, the effect of globalization on businesses and especially small businesses has been the topic of conversation in academic environment. Globalization creates new structures and new relationships, with the result that business decisions and actions in one part of the world have significant consequences in other places. It is argued that the enterprises operating on a global market can take advantage of enhance their international competitiveness via economies of scale, exploitation of lower input costs, risk compensation, optimality of market segmentation. However it is a fact that not all the firms take the advantage of globalization equally and it put pressure on small scale industries (SSI) which can't easily find an organizational solution to cope with global business opportunities without suffering from limited resources. The effect of globalization on SSI has received a lot of attention in international circles because although they are small, in both developing and developed countries these enterprises make significant contributions to the economy. For many SSI, instead of competing against large multinational companies SSI can take the advantage of opportunities afforded by e-commerce to access new and often distant markets or global value-chains. This study presents how the new business environment originated by globalization affect enterprises and if SSI can use the potential of e-commerce to handle the difficulties of the new environment. The findings of the study shows that SSI have already been making use of e-commerce in creating value-added, new services and new business models, expanding their business and compete in global markets. However despite its benefits, there are a number of technical and non-technical limitations

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associated with ecommerce that limit or prevent SSI getting into use information technology and e-commerce operations. Because many of these SSI can't cope with these limitations such as technical, economic and legal barriers by themselves, they need public and/or private support.

In an era of globalizing economies many markets become increasingly international and competitive. Technological progress in logistics and distribution enables nearly every business to buy, sell and cooperate on a global scale and even smaller and locally oriented businesses are forced to see themselves in a global context to survive in this new challenging business environment. Although common sense is that the globalization expose SSI to many challenges the recent literature argues that SSI can benefit the new environment via e-commerce. In this framework this study presents the issues the SSI can face in changing business environment and the potential of e-commerce in this new environment. The findings of the study shows that although their size is a disadvantage for SSI to compete in global platform e-commerce can help them make up however there are several barriers that limit or prevent them from getting into e-commerce which can be handled with public and private support. In modern world, economic globalization is the trend of the economic development. In order to adapt to the trend of economic globalization and survive, enterprises have to do the international trade to improve their competitive ability, especially for the small scale industries (SSI). SSI do not have good way to get economic information and cannot sell their products in big markets like the big enterprises. The development of the e-commerce provides great opportunity for the SSI to do the international trade. As we all know that India is called the factory of the world now. Indian's products are sold in the whole world and the small scale industries' goods account for a large proportion. 21st century is the information age. The small scale industries should use the e-commerce to do the international trade and expand their markets. The small scale industries in have their special characteristics and has special policy.

Globalization of Enterprises

An incredible increase in production, technological developments, increase of speed of transportation, and ease in communication helped capital, labour, information and technology movement to get intense between countries besides goods and services following the Industrial Revolution. As a result national economies connected to each other with movements which are gradually getting more complex and dense (Ekodiyalog, 2012). Globalization is the tendency of investment funds and businesses to move beyond domestic and national markets to other markets around the globe, allowing them to become interconnected with different markets. Accordingly globalization provides organizations a superior competitive position with lower operating costs, to gain greater numbers of products, services and consumers. This approach to competition is gained via diversification of resources, the creation and development of new investment opportunities by opening up additional markets, and accessing new raw materials and resources (öncekara and Savrul, 2012:24) Economic activities are certainly moving in the direction of globalization and the production and distribution system is evolving worldwide. In this course the role that international trade plays in connecting countries around the world is

clear. Globalization creates new structures and new relationships, with the result that business decisions and actions in one part of the world have significant consequences in other places. Underlying and reinforcing these globalization trends is the rapidly changing technological environment, particularly in information processing, and telecommunications. Changes in telecommunications and data processing capabilities make it possible to coordinate research, marketing and production operation around the world. Almost instantaneous communications make it possible to trade financial instruments twenty-four hours a day, and thus more return-sensitive are location of resources within firms, industries and countries (Muhammad *et al*, 2010:66). A working definition of globalization is the global integration of economies through trade and investment flows, as well as the production of goods and services in order to enhance international competitiveness. The economic profile of globalization includes the development of global corporations and global networks; the widespread internationalization of all forms of economic activity in production, marketing, consumption and capital, standards; the development and wide diffusion of lean production methods and a much greater disaggregation of production; the migration of labour-intensive, standard-technology production to low wage economies; the migration of highly educated and skilled labour to countries of advanced information technology; the successful integration of a multinational and multicultural workforce in order to strategically deploy the economic and social benefits of diversity; the re-orientation of large-scale production in high wage economies from economies of scale to economies of scope; the shortening of product cycles; the integration of outside financial and other services into the production cycle; and the rapid growth and diffusion of service and knowledge-intensive activities particularly in advanced industrial economies (Passaris, 2006). Other definitions include the process of accelerating international integration of markets that result in an integrated global market without national economic borders. A firm operating on a global market can take advantage of four main sources of benefits vis-à-vis competitors operating in only a local context (Mundim *et.al*, 2000); • economies of scale; • exploitation of lower input costs; • risk compensation; • optimality of market segmentation. Trade economists agree now that the new feature of globalization is an explosion of world trade in intermediate goods and in foreign direct investment, while the trade exposure of rich has not increased over the last 100 years. The raise of trade in intermediate goods and in foreign direct investment are the signs of the new way firms organize their activities. The value chain has become global. The global firm produces one stage of production in one location and exports the input for refinement to a second location. The refined input gets further refinement in a third location. During this refinement process intermediate goods are traded from one location to the next. This way, the international organization of production leads to the observed increase in trade in intermediate goods and in foreign direct investment. Parallel to these changes in the world economy the corporate sector in rich economies has gone through an enormous amount of reorganization (Marin and Verdier, 2003:337). In an era of globalizing economies many markets become increasingly international and competitive, however the story is different for SSI than it is

for multinational corporations (MNCs) (Muhammad *et al.*, 2010:66). Globalisation is a source of opportunities as well as a source of threats. Specific advantages derived from operating in a global market seem to be exploitable only by large organisations unless SSI can find an organisational solution allowing them to cope with global business opportunities without suffering from limited resources and without exposing themselves to the risk of direct investment (Mundim *et.al.*, 2000). An increase in the number of exporters or MNCs implies more intense competition. The overall effect of competition on the performance of SSI is unclear, however. On the one hand, increased product market competition may cause SSI to reduce their price mark-ups. On the other hand, the “learning by competition” analogy suggests that the pressure to survive may speed up the adoption of new technologies and thereby enhance the productivity of SSI. With regard to the labour market, higher wages paid by multinationals and exporters may have spillover effects to other industries, resulting in an increase in the cost of production for SSI (Asiedu and Freeman, 2007: 368).

Changing Business Environment of SSI

Private SSI typically account for more than 95% of all firms outside the primary agriculture sector, constitute a major source of employment and generate significant domestic and export earnings in the OECD, transition and developing countries. Improved SME competitiveness could obviously contribute to economic and social development and poverty reduction (OECD, 2004:9). In both developed and developing countries, SSI make up a majority of business and employ the majority of workers in both manufacturing and services sectors. SSI cater mostly to their domestic market and their contribution to GDP, although normally very small, can vary greatly depending on the value of the goods or services they produce. While less than 6 per cent of the formal work force is employed in manufacturing in SSI in Azerbaijan, Belarus and Ukraine, this share is more than 50 per cent in other developing countries such as Ghana, Turkey and Ecuador. Studies has indicated that countries with large SME sectors also tend to benefit from the significant contribution which SSI make to GDP.

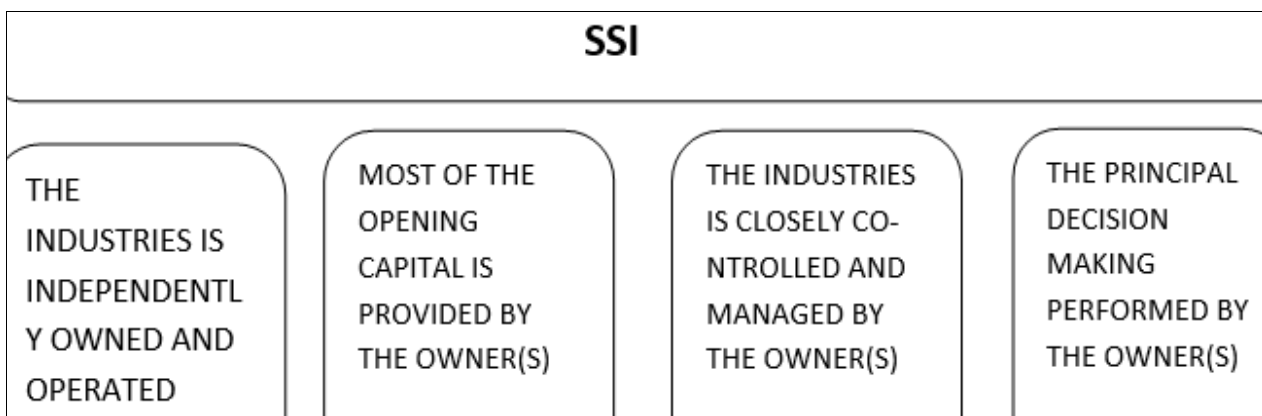


Fig 1: Typical Characteristics of SME

Role of SSI in growth of Indian Economy

SSI contribute immensely to the economy of the country. They can be termed as the backbone of the economy. Their contribution to the service sector is also significant. The number of SSI in India right now comprises of around 6,000 micro-clusters and 1,157 industrial clusters ^[4]. Their contribution towards the GDP stands at 17% and their contribution towards Industrial output and Exports stands at 45% and 40% respectively ^[5]. Considering these stats, the importance of SSI in the growth of the economy cannot be denied in any manner. There are close to 48 million SSI in India if the total of two above-mentioned clusters is considered and these SSI around 40% of the country's workforce.

This growth can be further stimulated by exploiting the growing internet penetration in India. The SME sector has also started embracing the technology available to them and is now eager to tap into their potential as internet sellers where they can reach more of shoppers and consumers across the country.

The obvious advantage

Information Technology has come out as a game-changer in almost every walk of all. Book your tickets, pay your bills, transfer your money, entertain yourself, it is all there. So, it will not be wrong to say that the use of internet has acted as

a game changer even for business activities across the globe. In India, SSI have been operating in a traditional manner and have been dependent on domestic trading activities for a long time. But with the growing rate of internet penetration, SSI in India are also gradually modifying their activities to grab opportunities to trade globally through e-commerce. It is very fascinating to note that around 43% SSI are now involved in online transactions. These SSI have an enhanced customer base, better employment opportunities and increased profits. And the trend is on a rise, wherein according to survey almost 565 SSI believe that use of e-commerce will boost their business growth ^[7]. It was also observed that the SSI who used the internet extensively had a growth rate of around 19% as compared to those who did not put the use of Information Technology in an extensive manner. The growth rate of such SSI was recorded at around 13% ^[8]. Those SSI who used the internet extensively for their business purposes also recorded export values which were approximately twice of those SSI which did not use much of internet for their business activities ^[9].

The traditional SSI have not experimented much and have stuck to their core activities while those who have entered the domain of e-commerce has not only seen a growth in their business but also a growth in their status quo. It has also been ascertained that around 98% of the SSI who use Information Technology and e-commerce contribute to the

total exports of the country while only 11% of the traditional SSI are contributing towards the total export values ^[10]. This gap between the tech using SSI and traditional SSI can be explained by the fact that e-commerce goes beyond the geographical boundaries and provides a level playing field. E-commerce increases the trade visibility of the seller among the buyers who are located in far flung geographical regions.

Potential Benefits to SSI

Offline is that you are cut off geographically, and more often than not, incremental efforts are made to expand the customer base. This takes a long period. On the other hand, e-commerce helps SSI carry on their business activities transcending geographical barriers, thereby increasing the customer base, sales, and revenue. It has been perceived that due to the increased speed to market and a global customer base, an SME can boost its revenues by 51%. Another benefit of e-commerce is that there is a prompt feedback channel through which any complaint or mistake can be made good immediately. The referral system on the internet also helps the business to tap into more potential customers.

Increase in revenues

One major disadvantage of being offline is that you are cut off geographically, and more often than not, incremental efforts are made to expand the customer base. This takes a long period. On the other hand, e-commerce helps SSI carry on their business activities transcending geographical barriers, thereby increasing the customer base, sales, and revenue. It has been perceived that due to the increased speed to market and a global customer base, an SME can boost its revenues by 51%. Another benefit of e-commerce is that there is a prompt feedback channel through which any complaint or mistake can be made good immediately. The referral system on the internet also helps the business to tap into more potential customers.

Low Marketing and Distribution Cost

There is a very sharp rise in competition these days. Businesses try to draw in as many customers as possible to beat their rivals. To do this, they spend heavily on traditional and digital media. By adopting e-commerce methods, the SSI can reduce their marketing costs drastically by cutting down on expenses of trade shows, enormous offline advertisements and call centers, thereby optimizing their spending. These savings can reduce their expenditures up to 60-80% ^[12]. Moreover, adoption of e-commerce methods reduces the traditional marketing cost and the cost of opening a store in multiple places also.

Increase in Profit Margin

SSI can take advantage of a third-party trading platform with a very little or no investment by implementing e-commerce methods. They can host and develop their online storefront and also manage logistics, packaging and, warehousing. The reduction in overhead costs of these activities can potentially increase the profits of SSI by 49%. When costs are reduced, the same resources can be used to develop a better and more competitive pricing strategy which will have a constructive impact on the profit margins. Adoption of e-commerce also cuts out the middle-man between the SSI and the consumers, thereby cutting down cost further and increasing profits.

Better accessibility and geographical reach

The internet is not restricted by any geographical limitations. The seller can connect to several buyers across different geographical areas. In the virtual marketplace, geographical boundaries disappear and business can go on 24x7 without any time zone restrictions.

Faster Approach to Market

A key factor in increasing business is to come up with the product in the market before your competitor does. Time is the essence where the window of demand for any specific product is very short. E-commerce provides the ability to SSI to approach the market faster by avoiding possible chaos in the supply chain. The redundant processes can be eliminated, and the process of communication can be streamlined to reach the customer as quickly as possible.

Better experience for the customers

In today's competitive business world, the principle "the customer is the king", holds the center stage. E-commerce helps the SSI to provide a better experience to the customers. Optimized after-sale services, quick responses to the inquiries of the consumer, and an interactive and informative process of transactions creates a strong and loyal customer base which help the SSI in the long run as these loyal customers themselves act as strong brand advocates.

The potential of e-commerce for ssi in a globalizing business environment

Electronic commerce (e-commerce) technologies have the potential to lead to significant productivity gains at firm level. Especially when applied to business-to business relations, electronic technologies can lead to rationalization of business processes and cost savings. As an immediate impact, these technologies allow automation of common processes, such as distribution, sales, after-sales service and inventory management (OECD, 2000a). There are a variety of ways by which the internet and e-commerce are useful for SSI (Wiki books, 2014):

- It facilitates the access of artisans and SSI to world markets.
- It facilitates the promotion and development of tourism of developing countries in a global scale.
- It facilitates the marketing of agricultural and tropical products in the global market.
- It provides avenues for firms in poorer countries to enter into B2B and B2G supply chains.
- It assists service-providing enterprises in developing countries by allowing them to operate more efficiently and directly provide specific services to customers globally.

Conclusion

SSI play dominant roles in terms of employment generation and economic development in this regards the effects of globalization on them and their prosperity in new business environment created by globalization is of a particular important to both developing and developed economies. In this framework this study presents how globalization affect enterprises and if SSI can use the potential of e-commerce to handle the difficulties of the new business environment. The study also contributes to understanding of the internet as a medium for commercial use. The case studies shows

that SSI carry out electronic commerce to invent new ways of creating value-added, new services and new business models, to develop e-commerce strategies geared to expanding their business, often internationally, and increasing their effectiveness and enter into electronic partnerships with large firms which are their customers or suppliers or with industry-wide associations. The EU practice demonstrate that more than 40% the medium enterprises employing 50 to 249 persons purchase via internet and similar channels and more than 20% of them are selling their goods on the same platforms. The enterprises employing 10 or less people are the second most active firm size in the list and roughly 35% of them use internet for purchasing and 15% for selling. As seen in both figures the enterprises with 10 to 50 persons are the least active firm type in purchasing and selling via internet and similar channels. Additionally turnover values show that e-commerce is responsible for more turnover share than the ones of largest firms. Despite its benefits, there are a number of technical and non-technical limitations associated with internet-based electronic commerce. The SSI in the EU report that their foremost issue that limit their operation in electronic platforms is that their goods or services are not suitable to e-marketing. Furthermore assessment based on firm size shows that secondary problems for the enterprises in all sizes are the problems related to logistics and payments. The issues related to security and legal framework are the latest problems that obstruct the firms getting into e-commerce. Other issues that hinder SSI from getting into e-commerce is reported as lack of awareness about e-commerce and e-commerce business models, lack of knowledge of e-commerce, trust and confidence problems, legal and regulatory framework, poor information infrastructure access, security issues and high costs. Although SSI can handle some of the obstacles automatically by the changing business environment, the ones such as legal and regulatory framework, poor information infrastructure access and high costs can't be resolved by the efforts of SSI. In dealing with mentioned issues promotion of government and private industry is necessary. Besides educational assistance, facilitation of technological infrastructure and legal framework, a climate that will foster the commercial application developers to provide product features that support a broader range of e-commerce technologies to a broader range of business enterprises will contribute to accomplishment of SSI.

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