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Web-Enabled Business in SMEs in Less Developed Regions

An Empirical Study of the Influence of Government Incentives, Physical Location and Cost

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Abstract:

Digitally-enabled automated business solutions have the capacity to transform the economies of less developed regions. Indeed, the penetration of web-enabled automated business systems amongst small firms in less developed regions is a good indicator of the health of an emerging digitally-enabled economy. These technologies open up new markets and, through the effective control of supply chain logistics, create new efficiencies which enable these firms to compete. This research explores current e-readiness trends concerning small to medium size enterprises in the Western Balkan region, a region under-represented in the recent literature. It focuses attention on three main factors which appear in the literature: government incentives, physical location and cost. The study concludes that the role of the emerging technologies and the Internet is reshaping the business model of the enterprises in the region and draws conclusion about important influencing factors.

Keywords: Control and Automation to Improve Stability, Managing the Introduction of Technological Change to Improve Stability, SME-oriented Automation.

1. INTRODUCTION

Digitally-enabled online business automation is transforming the way SMEs are engaging in business across supply chain and in social networks comprising customers, regulators and other trading partners. For example, Rasel (2016) showed how organizations using internet-based services to drive efficiencies through better communications and control of relations with customers and suppliers. In spite of the importance of these technologies as an engine for economic development and regional stability, few studies have reported on the Balkan Peninsula. This paper reports a study of specific factors influencing internet-based business systems automation penetration in the western Balkans, and tests a number of hypotheses to understand in factors reported in the literature are present in this regional case.

2. AUTOMATED DIGITAL SYSTEMS & SMES

OECD (OECD 2018b) reports that the focus on internet-based business varies across different economies in the European zone. However, most SMEs in this region are using this automation and control technology to innovate their business models, especially by using social media to engage with their customer base and exploit market opportunities. Social media enables SMEs to engage with more end users in a shorter period. Bouwman et al. (2018) reported similar findings in an empirical study of 338 European SMEs actively using web-enabled social business with big data to innovate their business model. The study explored whether or not this tendency is also found in the Western Balkans.

Ketikidis et al. (2008) confirmed in later reports by the World Bank (2015) explored the usage of EDI in railways across the Balkan region and found out that is quite low. Also, OECD (OECD 2018a) presented evidence that the use of EDI in the Western Balkans is low in comparison to other regions. Web-enabled business solutions are perceived by some as a driver of cost reductions, especially in countries where access to Internet is easier in comparison to countries which are having difficulties in adoption by enterprises and people which is turning to be an evolutionary manner instead of being a revolutionary approach (EBRD 2018), (Pavic 2011), a situation especially true in countries outside the European Union where the infrastructure is not well developed and the government are not giving incentives to help small enterprises to use the advantage of the Internet.

OECD (OECD 2018a;) reported business registration of the Balkan region showing an increasing tendency of small enterprises to register as individual businesses and limited liability companies, which in turn implies that business arrangements in the region are becoming more normalised and formalized. Unlike SMEs in Europe, most enterprises in the report are owned and managed by a single person and investments on technology are mainly perceived as costs and not as benefits.

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In a major early study of technology investment and innovation, Pek-Hooi Soh *et al*. (2004) found that the physical location of a firm was vital for the success of business ventures generally, and shaped their use of information technology as a strategic lever as reflected in the customer value preposition. As SMEs recognise the need to use even basic web solutions such as e-mails, web-pages and e-commerce systems, they innovate new opportunities for small-scale local enterprise thus successfully competing with bigger enterprises without a need on having offices in several places, thus mitigating disadvantages associated with poor geographic location (Sun et al. 2012). Ratnasingam (2008) mentioned the fact that with the growth of e-commerce known as interaction business-to-consumer (B2C) firms are gaining new customers and are being able to compete with larger firm, even though there are still reluctances of customers using e-commerce instead of shopping physically. Other research reveals that not all enterprises are using information technology to achieve their goals and strategic direction. For example, in a major study of EDI penetration in Kosovo supply-chain networks Stapleton (2011) reported that about two thirds of firms had not adopted this digital supply chain automation system to control the flow of business information across partner networks. Whilst this study did not report on physical location factors, it did show that subsidiarity was an important factor influencing EDI adoption amongst large firms such as banks.

Government influence through incentives has also been reported as an important factor shaping the e-readiness of small firms. In this way, a research by Hong et al. (2016) wrote about the necessity of government grant to promote innovation and efficiency, which was found to be a positive connection among innovativeness in terms of e-readiness and grants by governments.
Tsai et al. (2011) reported that the implementation of digital business solutions (in this case ERP) involves significant risks and have a very low success rate impacted by important contextual factors, especially post-conflict countries. In a research by Kryeziu and Imeri (2016) a chronology of governmental incentives and investments in terms of creating a better interaction among tax administration and businesses showed an easier way of using e-services and a high acceptance of users, in this case businesses.

3. RESEARCH QUESTIONS, THEORY AND HYPOTHESES

This short literature review gave rise to three research questions which explore a narrow range of possible factors:

RQ1: To what extent does physical location of SMEs in the Western Balkan region influence the penetration of web-enabled business automation solutions?

RQ2: To what extent do government incentives influence the penetration of web-enabled business automation solutions amongst SMEs in the western Balkan region?

RQ3: To what extent do factors associated with cost control influence the penetration of web-enabled business automation solutions amongst SMEs in the western Balkan region?

From these research questions and the literature survey it was possible to derive a number of testable hypotheses for which data could be gathered, as follows:

H1: Factors associated with the physical location of SMEs in the Western Balkan region are perceived by key decision makers in these SMEs to be correlated with the adoption of online business automation technology.

H2: Factors associated with appropriate government incentives for SMEs in the Western Balkan region are perceived by key decision makers in these SMEs to be correlated with the adoption of online business automation technology.

H3: If H1 and H2 are true, factors associated with the physical location of SMEs in the Western Balkan region are perceived by key decision makers in these SMEs to be correlated with the availability (or otherwise) of appropriate incentives from government in relation to the adoption of online business automation technology.

H4: Cost factors for SMEs in the Western Balkan region are perceived by key decision makers in SMEs to be correlated with the adoption of online business automation technology.

H5: If H4 is true, cost factors for SMEs in the Western Balkan region are perceived by key decision makers in these SMEs to be correlated with incentives from government in relation to the adoption of online business automation technology.

4. OVERVIEW OF RESEARCH DESIGN

This research used an online survey based upon the above hypotheses to gather evidence both for the theory and on SMEs and decision maker profiles. The survey employed a self-administered, structured questionnaire using mono-method (single data collection technique). The targeted population was key decision makers in SMEs and response rates were 67% (94 respondents from 140 targeted companies). These were approached through by the researchers based on data found at opendatakosovo.org and arbk.rks-gov.net. The study therefore suffers from a non-response bias of 33%. The next section presents survey findings.

5. FINDINGS AND DISCUSSION

4.1. Profile of the Respondents

The first part of the questionnaire gathered details of key decision makers and their firms. Gender breakdown was 75% males and 25% of the respondents were females. This was consistent with results in other recent reports prepared by international agencies (OECD 2018a; ASK, 2018). Whilst the

survey did not explore these findings in further detail, it can be reasonably speculated on the basis of academic studies that these high rates of males in decision making are due to the bureaucratic procedures and culture in the firms, possibly associated with the transitioning nature of the economy from centrally-planned to market economy (Cule & Fulton 2005), Samolienko (2008)). There may also be prejudices associated with a Kosovar patriarchal culture which act as obstacles against women leading an enterprise (Saltemarsh (2002), Slzuki & Albani (2004)). There are also barriers created by the recent wars which affected predominantly the way of doing business and sustainability of the enterprises and which may be reflected in this gender bias. The post-conflict situation may also explain the age-profiles of decision makers in the sample. Respondents between 25-34 years old made up 50% of the sample. Respondents aged between 35-44 occupied 16% of the whole population, whereas the group less than 25 years old and 44-54 years old together account for 13.8%. Respondents between ages of 55-64 comprised only 6.4%. This again is consistent with other reports showing a tendency of younger people who have accessed higher education and/or have entrepreneurship spirit to create their own enterprise (OECD 2018a; ASK, 2018).

4.2. Profile of Digital Business Systems Penetration in SMEs

The study made few assumptions about the level of penetration of various digital technologies in the sample. population and data was gathered to profile the nature and extent of penetration of these systems and technologies, including basic technology like Personal Computers, e-mail, intranet or other solutions.

All respondents used personal computers and e-mails but only 54.3% used a company intranet for internal purposes and only 2.1% are using other software's such as Enterprise Resource Planning, EDI or other solutions. Which is also connected with the fact that small enterprises do not perceive investments in ERP or EDI as a strategic approach. The findings for EDI-based automated business communications suggest little change in the last ten years for EDI penetration, a subject which requires further study as it suggests that these firms are at a significant disadvantage to SMEs in other regions, especially in relation to supply chain efficiency, business controls and productivity. They are also not in a position to avail of emerging technology in regulation such as XBRL and PEPPOL which could make it difficult for the firms to access business opportunities overseas.

These findings align with Komijani and Mahmoodzadeh (2009) which showed that, ten years ago, developing countries are trying to pursue technologic changes more, especially countries which are in South East Europe but that it is very difficult and some regions are at a distinct disadvantage compared to others. Studies have especially highlighted the difficulties for SMEs in African countries (Kayisire and Wei 2016) and this study of the Western Balkans suggest that the region may be experiencing similar structural barriers.

In spite of the reported difficulties associated with adopting a full suite of digital business solutions, 98% of respondents believed that the Internet and related digital services could play a significant role in lowering costs and adding value to their supply chain activities.

Table 1 summarizes influencing factors the SMEs decision makers reported for use business-based internet capabilities and related information technology services. In line with this, it can be said that the need of being and sustaining competitive in the market is perceived with the changes that they have to follow in terms of using new technologies.

Table 1. Summary of ICT influencing factors at SMEs

Summary of ICT influencing factors at SMEs		Results
1.	Internet as a very important tool	53.19%
2.	Internet as an important tool	31.91%
3.	Internet is not important tool or has marginal importance	5.32%
4.	Using ICT to communicate with existing customers	85%
5.	Using ICT to attract new customers	93%
6.	Being online was a request by our customers	82%
7.	Using ICT to exploit new markets	91%
8.	Using ICT to reach new suppliers	80%
9.	Using ICT to research the industry and markets	89%
10.	Using Internet to keep up with competition	95%
11.	Using ICT to streamline their operation	76%
12.		

The finding of current research regarding the influence of ICT usage are in line with the findings of different academics such as Hervas-Oliver et al. (2016), Aslesen and Harirchi (2015) where they stated that the use of innovative approaches through the Internet helped organizations to develop internally and externally, especially by easy access to raw materials, products and their customers to use the benefits within their supply chain activities which is also stated by reports of different institutions (OECD 2018b; EBRD 2018) when it comes to the use of the Internet with the influence of external factors.

Current and future plans on using innovative solutions offered by digital business capabilities

Current research measured also the current and future plans on using innovative solutions, where in table 2 a summary is presented.

Table 2. Summary of current and future plans

Summary of current and future plans		Results
1.	Possession of web page	88.3%
2.	Plans on having web page	8.5%
3.	Not having a web page	3.2%

4.	Purchasing goods/services online	63.83%
5.	Selling goods/services online	42.55%
6.	Supplying information about products online	94.68%
7.	Not supplying information about products online	4.26%
8.	Planning to share information about products in the near future	1.06%
9.	Bidding for contracts via Internet	78.72%

The low levels of selling online from the company perspective it is connected with the fact that the infrastructure is not well-developed to support selling online as well as the fact that customers are loyal when it comes to purchasing goods/services since they prefer purchasing offline (Roy et al. 2017). However, since most of the respondents possess web page they stated that they supply information about the products via the Internet while a low percentage of respondents are still not sharing product information via the Internet and few of them are planning in the near future to share information. The current findings are not in line with the finding of Guha et al. (2018) where having a web page is considered as a main source of interaction with different opportunities offered by the Internet.

Furthermore, the current use of the Internet by enterprises is foreseen to have a huge impact when it comes to public bidding. In line with this, the respondents of the current research stated that they bid for contract via the Internet, which is considered a good indicator to overcome informal activities (Cule and Fulton 2005) as well as the use of electronic procurement which is the main way of applying for public contract starting from 2019.

The use of online systems to interact with third parties

Interaction among enterprises is considered to be a key-success factor. In this way, the table 3 below summarizes the use of online systems to interact with third parties.

Summary of usage of ICT to interact with third parties		Results
1.	Using Internet to find new suppliers	87.23%
2.	Using Internet to build business connections	94.68%
3.	Monitoring online visitors	44.68%
3.	Online subsidiary	67%
4.	Planning to have online subsidiary	2.13%
5.	Not planning to have online subsidiary	30.85%

In line with the table above, Rasel (2016) stated that organizations are becoming more punctual by the use of Internet services, mainly to be in touch with customers and suppliers which is in line with the current findings. Likewise, the statistics in terms of visitors play a crucial role when it comes to the analysis within a business. Nevertheless, the low levels of using Internet as a monitoring tool bring back to the findings of Aliu and Halili (2013) where there was no usage of advanced information systems which is offering the analytical tools as well.

Contrary, the non-usage of online subsidiary is considered as a lost potential, since according to the findings of Sun et al. (2012) small enterprises should use the power of the Internet to compete with bigger enterprises without a need on having offices in several places.

5. DISCUSSION OF EVIDENCE FOR HYPOTHESES

Based on the analysis through SPSS regarding the correlations among variables it was found out that some of the hypotheses are accepted and some are rejected. A summary is presented below, and a detailed table of the results can be found as appendix of this paper.

Table 3. Summary Results for Hypotheses

Hypothesis		Results
H1	Physical location correlated with adoption of online business systems	Rejected
H2	Government incentives correlated with location and adoption of online business systems	Rejected
H3	If H1 & H2 true, physical location correlated with benefits of Internet in comparison to its cost	Accepted **
H4	Cost factors correlated with the adoption of online business systems	Accepted***
H5	If H4 is true, cost factors correlated with government incentives	Accepted***
** 95% level of confidence		
*** 99% level of confidence		

Table in appendix A. Correlations provides the correlations table where it can be seen that the pearson correlation among location is vital to business success and customers expect our systems to be online it can be seen that there is a negative correlation among two variables and the 2-tailed significance is greater than 0.05 where there can be concluded that there is no significant correlation among those two variables, and the hypothesis H1 is rejected.

In addition, correlation among good location is vital to business success and government should give more incentives to help firms get on the Internet, there is weak positive correlation among variables and the 2-tailed significance is greater than 0.05 where there can be concluded that there is no significant correlation among those two variables, and the hypothesis H2 is rejected.

Further, good location is vital to business success and benefits of the Internet tend to out-weigh its costs, it can be seen that there is a weak negative correlation among two variables and the 2-tailed significance is less than 0.05 where there can be concluded that there is correlation among two variables at the 95% significant.

The hypothesis H3 is accepted at the 95% significance level which means that good location and Internet tend to outweigh its cost are indirectly related, due to its weak negative correlation which is related to what is stated in literature.

In regards to the variable customers increasingly expect us to be online and government should give more incentives to help firms get on the Internet it can be seen that there is a moderate positive correlation among two variables and the 2-

tailed significance is less than 0.05 where there can be concluded that there is correlation among two variables at the 99% significant level. The hypothesis H4 is accepted at the 99% significance level which means that necessity of being online is correlated with the necessity of incentives from government are directly related, due to its moderate positive correlation which is related to what is stated in literature.
Furthermore, customers increasingly expect us to be online and benefits of the Internet tend to outweigh its costs it can be seen that there is a moderate positive correlation among two variables and the 2-tailed significance is less than 0.05 where there can be concluded that there is correlation among two variables at the 99% significant level. Likewise, government should give more incentives to help firms get on the Internet and Benefits of the Internet tend to outweigh its costs it can be seen that there is a moderate positive correlation among two variables and the 2-tailed significance is less than 0.05 where there can be concluded that there is correlation among two variables at the 99% significant level. The hypothesis H5 is accepted at the 99% significance level which means that necessity of being online is correlated the with benefits of the Internet in comparison to its cost are directly related, due to its moderate positive correlation which is related to what is stated in literature.

5. CONCLUSION

The main aim of the current research was to provide a descriptive analysis as well as to test the hypothesis about the impact of the Internet usage at SMEs. With this in mind the study posed three research questions which can be answered briefly in light of the hypotheses and findings.

RQ1: To what extent does physical location of SMEs in the Western Balkan region influence the penetration of web-enabled business automation solutions?
There was no evidence to suggest a correlation between the physical location of firms and their adoption of these systems. This is an encouraging finding as it suggests that these technologies could help "level the playing field" for adopting SMEs. This could be a significant driver of competiveness, especially for firms in marginalised, outlier regions in the Western Balkans. It can be reasonably speculated that any government incentives designed to actively support SMEs across the region to adoption online business systems could have a major positive impact on economic activity. These could include infrastructure investments as well as other incentives The next question explored this possibility.

RQ2: To what extent do government incentives influence the penetration of web-enabled business automation solutions amongst SMEs in the western Balkan region?
There was no evidence that these incentives were available to firms, suggesting that the government may be overlooking the role of digital business automation systems as potential levers for economic growth. Previous reported case studies have revealed significant capacity for innovation and competitiveness in Kosovo across the high-tech sector (Stapleton (2019); Kealy & Stapleton (2015)). Findings for H5 suggest that any incentives which would alleviate cost barriers to technology investment would have a particularly strong impact, such as tax breaks, attractive credit facilities or other incentives.

RQ3: To what extent do factors associated with the control of costs influence the penetration of web-enabled business automation solutions amongst SMEs in the western Balkan region?
The evidence strongly suggested that cost were a major factor in technology investment decision in the region. SMEs reported that they recognised the innovative capacity of these solutions as well as using the technology to obtain competitive information driving strategic choices. There was evidence that costs were related to the geographical location of the SME, again suggesting that government incentives prioritising certain geographical locations are advised.

Being online is a matter of survival in the 21st century and this study reveals a positive picture in terms of the openness and readiness of many SMEs in the western Balkans to adopt and exploit these new technologies. On the other hand the barriers to adoption are significant and can be reduced by clear enacted government policies, supported by targeted international aid. The findings of this study suggest that such policies will democratise online access, and create sustainable balanced development across the region.

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Appendix A. Correlations table

		V1	V2	V3	V4
V1	Pearson Correlation	1	-.043	.096	-.245*
	Sig. (2-tailed)		.677	.355	.017
	N	94	94	94	94
V2	Pearson Correlation	-.043	1	.352**	.297**
	Sig. (2-tailed)	.677		.000	.004
	N	94	94	94	94
V3	Pearson Correlation	.096	.352**	1	.303**
	Sig. (2-tailed)	.355	.000		.003
	N	94	94	94	94
V4	Pearson Correlation	-.245*	.297**	.303**	1
	Sig. (2-tailed)	.017	.004	.003	
	N	94	94	94	94
*. Correlation is significant at the 0.05 level (2-tailed).					
**. Correlation is significant at the 0.01 level (2-tailed).					

Variables:
V1: Good location is vital to business success
V2: Our customers increasingly expect us to be on-line
V3: The government should give more incentives to help firms get on the Internet
V4: Benefits of the Internet tend to outweigh its costs