

## **Factors influencing Adoption of E marketing by small and Medium Enterprises (SMEs) in Kisumu Municipality**

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**Executive summary:** *The existence of marketplaces in human society has a long history from before the Agora of Ancient Greece to the online trading places of the 21st century (McMillan 2002). Larger organizations, with their more extensive resources, are investing in E marketing to take advantage of the significant trading benefits, however, the electronic environment can be intimidating to many smaller firms and adoption of E marketing remains a mystery to many SMEs. This is contributed by a number of factors that range from decision making, firm characteristic and environmental factors. This study analyzes factors influencing adoption of E marketing by SMEs in Kisumu Municipality. The study employed cross sectional descriptive research design. Data on Factors influencing adoption of E marketing by SMEs was collected through a survey questionnaire of 195 randomly selected SMEs in Kisumu Municipality. Collected data was analyzed using descriptive statistics.*

**Key words:** *Small and Medium Enterprises, Electronic Marketing*

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### **I. Introduction**

The existence of marketplaces in human society has a long history from before the Agora of Ancient Greece to the online trading places of the 21st century (McMillan 2002). The 1990s have seen an explosive growth of networks and information systems that cross organizational boundaries, these systems can bring together buyers and sellers in a market. The result is Electronic marketing or E marketing (Bakos 1998; Malone et al 1987). Kambil and van Heck (2002) are of the view that E marketing must offer an advantage over traditional markets if it is to succeed and encourage firms to overcome any difficulties arising from using the technology. Consequently, E marketing must be as rich, complex and complete as a traditional market and must create extra value for its users.

Stockdale and Standing (2004) report that larger organizations, with their more extensive resources, are investing in E marketing to take advantage of the significant trading benefits offered and anticipate that suppliers will be available through such markets. However, the electronic environment can be intimidating to many smaller firms and adoption of E marketing remains a mystery to many SMEs. SMEs need to understand E marketing opportunities to develop informed strategies (Brunn et al 2002). Moreover, despite a wealth of initiatives from governments, significant concerns remain as to how smaller businesses can benefit from the electronic environment (van Akkeren and Cavaye 1999; Korchak and Rodman 2001; Lewis and Cockrill 2002).

In Kisumu Municipality, many enterprises adopt E marketing. The common notion is that E marketing applications are best suited for large enterprises. However, SMEs are also adopting E marketing. SMEs need to have an understanding of various factors influencing the adoption of E marketing, SMEs are faced with dilemma in selection of E marketing tools and SMEs are also caught in crossroads in bid to quantify benefits of adopting e marketing. Therefore, this paper investigates factors influencing adoption of E marketing by SMEs. Information generated from the study is used to formulate a framework that will guide SMEs on the importance of adopting E marketing. The outcome of the study is also used to guide policy makers in the design of market linkages. Data on adoption of E marketing by SMEs was collected through a survey questionnaire of 195 randomly selected SMEs in Kisumu Municipality.

In the context of this study SMEs are defined as formally registered business, with 5-100 employees and with annual turnover of between Kenya Shillings (Kshs) 1 million and Kshs 10 million, this is consistent with other similar studies (International Financial Corporation 2004; and Okwara 2004). E marketing is defined as use of internet applications like Electronic mail (E mail), Advertisement banners (Ad banners) and website to facilitate buying and selling of products and services.

## II. Review Of Literature

### Importance of SMEs

Small and Medium Enterprises (SMEs) have been accepted as the engine of economic growth and for promoting equitable development. In the United Kingdom (UK), United States of America (USA) and Germany SMEs contribute approximately 50% of GDP and provide employment to 70% of UK employees (Bocij et al 2006; Sharma and Basotia 2003). In Asia-Pacific region SMEs comprise over 95% of the economy; they contribute to employment and the countries GDP, they contribute in development women entrepreneurs leading to increased gender equality by providing women with a source of income (Kotelnikov and KimHak 2007; Ashrafi and Murtaza 2008; Chirasirimongkol and Chutimaskul 2005).

In Africa SMEs account for a significant share of production and employment and are therefore directly connected to poverty alleviation. In South Africa, SMEs in the food processing sector employ about 183,000 people. SMEs provide employment to more than 50% of all employed labour force in Tanzania and Kenya, they also account for over 50% of manufacturing GDP (Wolf 2001; Matambalya and Wolf 2001; International Financial Corporation 2004).

### E marketing

Trading of goods and services for other goods or for money is central to the concept of human socialization (McMillan 2002). Development of e-marketing followed swiftly on the use of the Internet for business purposes (Forrester Research, 2000). Electronic environment has not changed the principles of markets and marketplace trading. In essence, the technology facilitates the business of the market, but it is not the reason for the market to exist (Kambil and vanHeck 2002). Larger organizations, with their more extensive resources, are investing in e marketing to take advantage of the significant trading benefits offered, however, the electronic environment can be intimidating to many smaller firms and adoption of e marketing remains a mystery to many SMEs (Stockdale and Standing 2004).

### E marketing Models

Despite the differences and wide variety in market makers' business models three main elements in the structure of an e-marketplace are identified by the literature: ownership, transaction mechanism and facilities or tools (Stockdale and Standing 2004). Ownership models have become more diverse as the number of participant in e marketing increases and market makers have reviewed and refined their business models. Four identifiable E marketing structures have been recognized.

- i) **Intermediary model** Skjott-Larsen et al (2003) define the intermediary model as E marketing model that bring together buyers and sellers to allow trading to take place, businesses operate services across industry sectors concentrating on delivering generic services such as auction and value addition services.
- ii) **Consortia model** Consortia model involves large multinational organizations investing in partnerships to form unprecedented collaborations with competitors to launch industry specific E markets (Raisch 2001). The structure of the consortium gives advantages to the owners by providing a focal trading point to attract suppliers to a specific industry. Suppliers' advantage lies in access to supply chains of large organizations.
- iii) **Hierarchy model** Bar (2002) highlights that hierarchy model involves creation of private marketplaces or hierarchies. Large organizations invest in and host their own marketplaces thereby retaining control of the facilities they develop and offer to suppliers. Such marketplaces require a large investment of time, money and technical expertise and are beyond the scope of many organizations particularly SMEs. However, the development of off-the-shelf software may enable smaller companies to launch less complex version. Included in the hierarchical model is the increasing number of government E marketplaces. This fall into two categories: E procurement hubs for government and government hosted sites to support and encourage E commerce.
- iv) **Cooperatives model** The cooperative or large group ownership structure of E marketplace is anticipated to arise in the near future. This model is based on a group of stakeholders cooperating as market makers for common interest. Common interest may lie within the type of industry, a geographic area, or a specific goal (Standing et al 2003).

### Factors influencing adoption of e marketing

The existing literature has categorized factors impeding adoption of e marketing by SMEs into internal barriers and external barriers. Barriers are negative influences of adoption (Sarosa and Zowghi 2003; Ashrafi and Murtaza 2008). A number of researchers highlight firm size, firm characteristic, product, sector, access to e marketing, policy changes and economic conditions as factor that influence the extent of adoption and exploitation of E marketing by SMEs (Matambalya and Wolf 2001; Wolf 2001; Giovanni and Mario 2003; Shiels et al 2006; Kotelnikov and KimHak 2007; McConville 2008).

Low annual budget to ICT investments, cultural deficiencies, lack of cooperation and trust between SMEs, lack of relevancy of adoption to the organization and design of E marketing are considered barriers in North America, Britain, Italy, North Ireland and Netherlands (Lucchietti and Sterlaccini 2004; Ravarini et al 2001; Okwara 2004; Onyango 1994; McConville, 2008; Kotelnikov and KimHak 2007; Shiels et al 2006). Legal and regulatory issues, weak strategies, lack of research and development, excessive and reliance on foreign technology are viewed as a challenge to adoption of E marketing (Matambalya and Wolf 2001; Wolf 2001). A study investigating adoption of ICT in Nigerian SMEs, found out that one of the major factors inhibiting diffusion and intensive utilization of E marketing is poor physical infrastructure (Ashrafi and Murtaza 2008; Akpan-Obong 2007). Not all East African states are committed to the implementation of ICT projects, for example, the East Africa Sub marine Cable System (EASSy), there is very little evidence of liberalization of telecommunication markets (Sahlfeld 2007). In Europe government assistance to SMEs, is not desirable due to the gap between what is really needed and what is provided by the government (Sarosa and Zowghi 2003). Sahlfeld (2007) concludes that the barriers can be due to digital divide, availability, accessibility and affordability. Sarosa and Zowghi (2003) conclude that knowing the drivers and barriers is not sufficient to effective and successful adoption. How to manage those drivers and barriers during adoption process is equally an important issue to study. Onyango (1994) highlight that barriers of E marketing adoption in Kenya are expensive solutions, lack of competent staff, poor infrastructure, poor standard of software, management problem, equipment problem and security. In Kenya the use of physical infrastructure and frequencies is unfortunately often subject to a licensing regime. The barriers can be reduced by providing more training facilities, designing products and services at an affordable cost, strategic alignment of e marketing with business, availability of free professional advice and online consultancy at reasonable cost to SMEs (Ashrafi and Murtaza 2008; Lucchietti and Sterlaccini 2004; Giovanni and Mario 2003; Ravarini et al 2001 Kotelnikov and KimHak 2007). SMEs need to have a clear understanding and choice of approach that suits their adoption needs which can be technical, operational, inter-organizational or strategic (Shiels et al 2006). Onyango (1994) suggests that policies should include service, products, infrastructure, education and training, social aspect, constraints and state policy.

### **III. Method**

The study employed cross sectional descriptive research design. According to Municipal Council of Kisumu (MCK) Revenue Department 400 SMEs were registered in the 2012/2013 financial year, 195 SMEs were sampled based on Fisher et al (1993). Survey method was used to collect primary data. Questionnaires were prepared and delivered to respondents by the researcher. Data was analyzed through descriptive statistics.

### **IV. Results**

#### **Manager Factor**

The study established that 69% of SMEs that adopt E marketing are managed by male and 61% are managed by female. The study also established that 36% of SMEs managers who do not adopt E marketing have attained secondary education and 41% have attained diploma education. Further, the research found out that all (100%) of SMEs managers who do not adopt E marketing can not use a computer see Appendix B. Kapurubandara and Lawson (2006) are of the view that owner/managers play an important role in decision making in SMEs, they further highlight that owner/manager characteristics affect the adoption of E marketing. Kotelnikov and KimHak (2007) suggest that to encourage SMEs adopt E marketing, efforts first need to concentrate on convincing top management.

#### **Firm characteristic**

The study established that 72% of SMEs in retail sector adopt E marketing, 83% of SMEs with a turnover more than Kshs 10 million adopt E marketing and only 10% of SMEs with a turnover between Kshs 6 to 10 million do not adopt E marketing. From the findings it is evident that 74% of SMEs with less than 10 employees adopt E marketing and 29% of SMEs with between 51 to 100 employees do not adopt E marketing. It is important to report that Ghobakhloo et al (2011) cite that business size definable by turnover and/or number of employees is one of the most important determinants of IT adoption, Indian construction SMEs possessing higher turnover will have higher ICT adoption.

#### **Environmental factors**

The study established that 89% of the SMEs that adopt E marketing are of the view that implementing E marketing is not expensive. The study also found out that 81% of SMEs that adopt E marketing are of the view that consultancy services are available. It is also worth to mention that 81% of SMEs that adopt E marketing are of the view that financing is accessible. Corrocher and Fontana (2006) identify high cost and lack of information as major obstacles to ICT adoption.

## V. Conclusion

The study established that there is high computer literacy among SMEs managers in Kisumu Municipality. It is also evident that manager's who have attained secondary level of education adopt more than managers who have attained diploma level. The study also concludes that turnover and number of years in business are key factors that influence adoption of e marketing. The higher the turn over that higher the adoption level and the less the duration in business the lower the adoption levels. The study also concludes that sector and number of employees are minor factors that influence adoption of e marketing.

Finally, the study concludes that cost of implementing e marketing and access to financing are major factors that inhibit adoption of e marketing. Availability of consultancy services and availability of infrastructure are minor inhibitors of adoption. Adoption by customers also influences adoption, the more the customers adopt the higher the adoption level.

## VI. Recommendations

The study reveals that there is consistency of the findings in Kisumu and the existing literature. Managers influence e marketing adoption decision and firm characteristic influences adoption of e marketing. Environmental factors including cost and access to SMEs financing are major factor that inhibit adoption of e marketing by SMEs in Kisumu Municipality. To ensure that there is a balance between the above factors the study recommends the following interventions:

- i) **Incubation:** The study also recommends creation of more incubation centers which can help new businesses particularly SMEs to acquire basic skills related to business and integration of e marketing.
- ii) **Cooperative model:** The county government can create a central e marketing web which can be used to offer a framework for various SMEs to conduct e marketing at reduced prices
- iii) **Low cost resources:** SMEs should be sensitized on the adoption of low cost e marketing resources for, example, Ncomputing which require limited financial resources to implement.
- iv) **Policies:** Policy makers should come up with mechanisms to regulate cost of e marketing resources, i.e., by lowering or zero rating e marketing resources.

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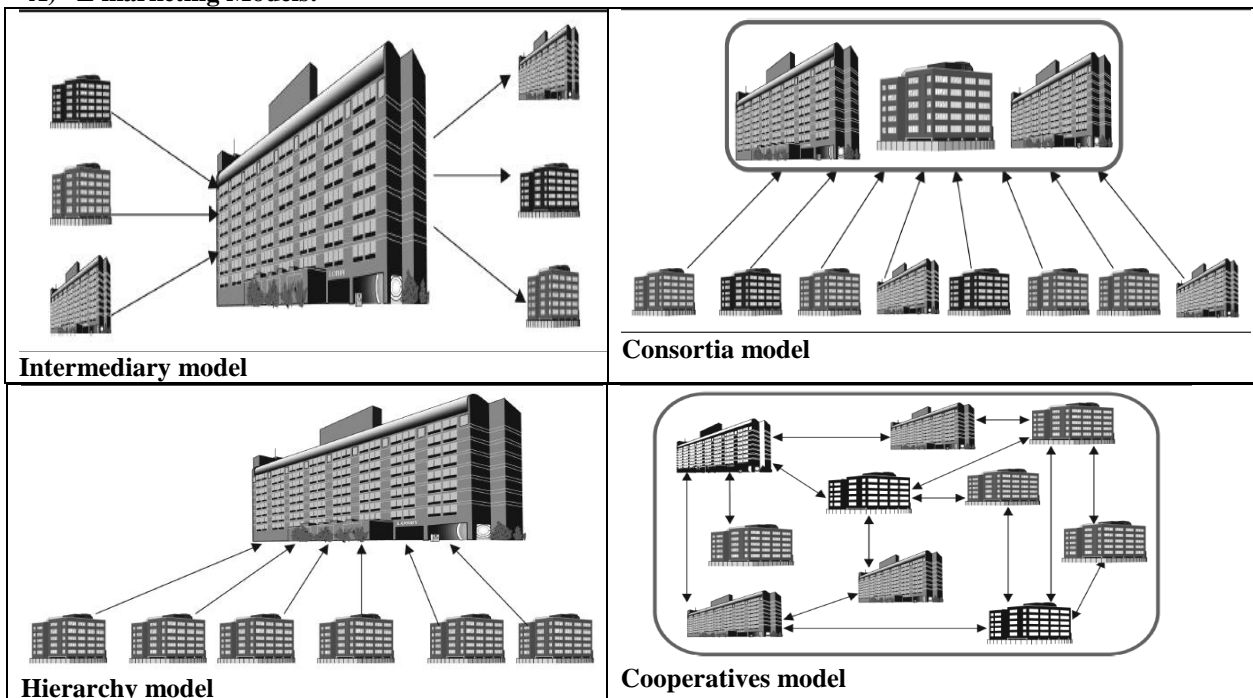
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**Appendices**

**A) E marketing Models:**



**B) Managers factor**

<b>Gender</b>	<b>Adopt %</b>	<b>Don't Adopt %</b>
Male	69	31
Female	62	38
<b>Level of Education</b>	<b>Adopt %</b>	<b>Don't Adopt %</b>
Secondary	64	36
Diploma	59	41
Undergraduate	78	22
Postgraduate	90	10
<b>Computer Usage</b>	<b>Adopt %</b>	<b>Don't Adopt %</b>
Can use	68	32
Can not use	0	100

**C) Firm characteristic**

<b>Sector</b>	<b>Adopt %</b>	<b>Don't Adopt %</b>
Service	64	36
Distribution	70	30
Hospitality	54	46
Retail	72	28
<b>Annual Turn over</b>	<b>Adopt %</b>	<b>Don't Adopt %</b>
Less than 1 Million	53	47
1 to 5 Million	55	45
5 to 10 Million	90	10
More than 10 Million	83	17
Non Respondents	89	11
<b>Number of Employees</b>	<b>Adopt %</b>	<b>Don't Adopt %</b>
Less than 10	74	26
10 to 50	50	50
51 to 100	71	29
More than 100	50	50
<b>Number of Years in Business</b>	<b>Adopt %</b>	<b>Don't Adopt %</b>
Less than 5	57	43
5 to 10	80	20
More than 10	71	29
<b>Expect Benefits</b>	<b>Adopt %</b>	<b>Don't Adopt %</b>
Expect Benefits	75	25
Do not expect Benefits	27	73
Not Sure	0	100

**D) Environmental factors**

<b>Cost of resources</b>	<b>Adopt %</b>	<b>Don't Adopt %</b>
Expensive	59	41
Average	78	22
Not Expensive	89	11
<b>Availability of consultancy services</b>	<b>Adopt %</b>	<b>Don't Adopt %</b>
Available	81	19
Not available	52	48
Don't Know	0	100
<b>Access to financing</b>	<b>Adopt %</b>	<b>Don't Adopt %</b>
Accessible	81	19
Not Accessible	55	45
Uncertain	100	0
<b>Availability of infrastructure</b>	<b>Adopt %</b>	<b>Don't Adopt %</b>
Available	78	22
Not available	41	59
Not sure	56	44
<b>Adoption by customers</b>	<b>Adopt %</b>	<b>Don't Adopt %</b>
Adopt	80	20
Don't Adopt	28	72
Not Sure	100	0