

The role of e-commerce to enhance the competitiveness of SME in Bangladesh.



Internship Report on-
**The Role of E-Commerce to Enhance the Competitiveness
of SME in Bangladesh.**

Submitted to:

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Date of Submission: July 15th, 2016

Part -A

Letter of Transmittal

July 15th, 2016

Nusrat Hafiz

Lecturer

BRAC Business School,

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Mohakhali, Dhaka-1212.

Subject: Submission of a report on the role of e-commerce to enhance the competitiveness of SME in Bangladesh.

Dear Madam,

I am very delighted to submit the intern report, due in July10, 2016 as you requested. I have done this paper on “the role of e-commerce to enhance the competitiveness of SME in Bangladesh”. My main incentive was to prepare this report according to your guidelines in accordance with your directions. I have tried my best to make my work as per your structures. I hope that I personally have done a satisfactory job considering my level of experience and capability and have been able to relate the fundamental things with realistic applications. Moreover, I am extremely thankful for the opportunities that you gave me to express my innovative ability and I intently hope that you will like the work that I have done.

Sincerely yours,

Md. Rahat Hossain

Id: 12204016

BRAC Business School.

Letter of Authorization

July 15th, 2016

Md. Rahat Hossain

ID: 12204016

BRAC Business School,

BRAC University.

Subject: Authorization Letter.

Dear Student,

I Nusrat Hafiz am authorizing you for conducting your intern project titled BUS 400. I have chosen your topic based on your academic side of your BBA program, which is “The role of e-commerce to enhance the competitiveness of SME in Bangladesh”. I also wanted to thank IDLC Finance Limited to give you the opportunity for doing the 3 months internship program on their organization.

With best regards,

Nusrat Hafiz

Lecturer

BRAC Business School

BRAC University.

Acknowledgement

I would start by thanking the Almighty Allah for all His blessings. Firstly, I want to sincerely thank my internship supervisor, Nusrat Hafiz, Lecturer, BRAC Business School, BRAC University for giving me the opportunity to do my internship report under her supervision, and for her unending support and providing the necessary help for the completion of this report.

I would like to thank Mr. Prodduthmoy Barua, (Assistant Manager, Credit Administration, IDLC) for teaching me all the basics of my tasks and patiently showing me every elaborate detail and guiding me throughout my internship period, Atau Haque Mozumdar (Senior Officer) for all his guidelines and support during the internship period and the entire team for being helpful and supportive in every little help I needed and for creating the opportunity for me to bring out my best performance.

Executive Summary

IDLC Finance limited one of renowned non-banking financial institution in Bangladesh. It started its operation at 1985 and it is the pioneer financial institution in Bangladesh. IDLC Finance Limited has different kinds of products and services. IDLC is financing in different sectors through their products and services. I have done my internship in IDLC Finance Limited in Credit Administration Department in Corporate Head Office.

Being an intern in the Credit Administration department, I got the opportunity to see how the Credit Administration works with Corporate Division to achieve targets with a minimal risk. I also have the opportunity to learn how the SMEs sector financed by different Non-Bank Financial Institutions (NBFI) and the banks. In this report, I sincerely try to show the impact of Small and Medium Enterprises (SMEs) in Bangladesh economy and how it accelerate the growth of Bangladeshi economy. Moreover this report also try to identify the interrelation of E-Commerce and SMEs to get its sustainable growth. Here, how ecommerce can solve up the SMEs challenges those things are discussed. The whole report aims to identify the opportunities of SMEs in Bangladesh and how e-commerce boost the competitiveness of SMEs. The result of the study shows that according to relative advantage, Bangladeshi SMEs are willing to adopt e-commerce due to its many advantages. Relative advantages influence the adoption of e-commerce, and this reports shows that it increases the adoption of e-commerce among Bangladeshi SMEs.

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1. Introduction

The current climate of business necessitates competitions that are often tough and unpredictable. All organizations, regardless their size and scope of operation, are facing severe competitive challenges. In order to cope with this phenomenon, managers are turning to e-commerce in their respective organizations.

The present study hinges upon exploring and explaining the different dimensions of the adoption of e-commerce among Small and medium enterprises. The adoption of e-commerce is a cost-effective tool for the SMEs to market and launch new products, improves client communications, as well as enhancing the collection of marketing knowledge and information (Hunaiti et al. 2009). Moreover, the adoption of e-commerce within SMEs gives way to unique opportunities for businesses to engage international firms, which they are unable to do in the past. The adoption of e-commerce increases the productivity within SMEs via the reformation of work action and techniques; where it improves customer service and record keeping

With developments in the Internet and Web-based technologies, distinctions between traditional markets and the global electronic marketplace-such as business capital size, among others-are gradually being narrowed down. The name of the game is strategic positioning, the ability of a company to determine emerging opportunities and utilize the necessary human capital skills (such as intellectual resources) to make the most of these opportunities through an e-business strategy that is simple, workable and practicable within the context of a global information milieu and new economic environment. With its effect of leveling the playing field, e-commerce coupled with the appropriate strategy and policy approach enables small and medium scale enterprises to compete with large and capital-rich businesses.

On another hand, developing countries are given increased access to the global marketplace, where they compete with and complement the more developed economies. Most, if not all, developing countries are already participating in e-commerce, either as sellers or buyers. However, to facilitate e-commerce growth in these countries, the relatively underdeveloped information infrastructure must be improved.

1.1 Origin of the report:

As it is a part of the BBA degree requirement to have a practical orientation, I was assigned by the BRAC Business School (BBS), BRAC University to IDLC Finance Limited to take real life exposure of the activities of the organization as a financial institution. I was appointed to work in the field of Credit Administration of the Operations Department (CAD), during my internship at IDLC Finance Limited.

This report has been originated as the course requirement of the BBA program. I hope the report will give a clear idea about the role of e-commerce to enhance the competitiveness of SME in Bangladesh.

1.2 Methodology:

The paper has been written on the basis of information collected from primary and secondary sources.

- a) Primary Data: online survey
- b) Secondary Data: for the completion of the present study, secondary data has been collected. The main sources of secondary data are:
 - i. Annual Report of IDLC Finance Limited.
 - ii. Data from published reports of SEC, DSE
 - iii. Different Books, Journals, Periodicals, News Papers etc.
- c) Survey tools:
 - Online Google survey form
 - SPSS Software version 20.

1.3 Limitation:

The paper mainly focuses on the impact of E-Commerce on the competitive business world especially in the Small and Medium Enterprise. Since I have less experience with the E-Commerce industry, so for information I need rely on secondary source mainly.

Some other difficulties were faced while making the report and they are as follows-

- Difficulty in accessing data of its internal operations.
- Non-Availability of some preceding and latest data.
- Unwillingness of e-commerce websites to provide information.
- Related regulatory body, Ministry of commerce & Industry do not provide sufficient data.
- Lack of information regarding total revenue from e-commerce industry in Bangladesh

I was placed for only around 3 months of time & working like a regular employee hindered the opportunity to put the effort for the study. The time span was not sufficient enough to learn all the activities of the organization properly. Therefore, it was very difficult to carry out the whole analysis.

Part -B

2. Organizational Part

2.1 Company Overview:

IDLC was initially established in Bangladesh in 1985 through the collaboration of International Finance Corporation (IFC) of the World Bank, German Investment and Development Company (DEG), Kookmin Bank and Korean Development Leasing Corporation of South Korea, the Aga Khan Fund for Economic Development, the City Bank Limited, IPDC of Bangladesh Limited, and Sadharan Bima Corporation. As the company evolved, initial foreign shareholding of 49% was gradually withdrawn and the last foreign shareholding was bought out by local sponsors in 2009.

Although IDLC initially started with Lease Financing as its core product, IDLC has grown to become the largest multi-product Non-Bank Financial Institution of Bangladesh, with almost equal focus in Corporate, Retail and SME sectors. Moreover, IDLC has a significant presence in the Capital Markets. IDLC's merchant banking arm, IDLC Investments Limited, a wholly-owned subsidiary of IDLC is a premier brand for investment banking in the country. Its stock brokerage arm, IDLC Securities Limited, another wholly-owned subsidiary of IDLC is also amongst the top five brokers in the country. Over the years, IDLC has attained a significant presence in the corporate sector of Bangladesh. IDLC is highly respected by our clients, peers, employees and regulators for our strong corporate governance, statutory compliance, high ethical standards, a progressive and enabling working environment, and strong commitment to environmental and social development.

IDLC continues to play a pioneering role in introducing and popularizing a variety of financial instruments suiting ever-changing requirements of its fast-growing clients. We are continuously expanding our presence to ensure the best quality of service to our clients at all times. ("IDLC Finance Limited » About Us," n.d.)

Vision

We will be the best financial brand in the country.

Mission

We will focus on quality growth, superior customer experience and sustainable business practices.

2.2 Shareholding Structure

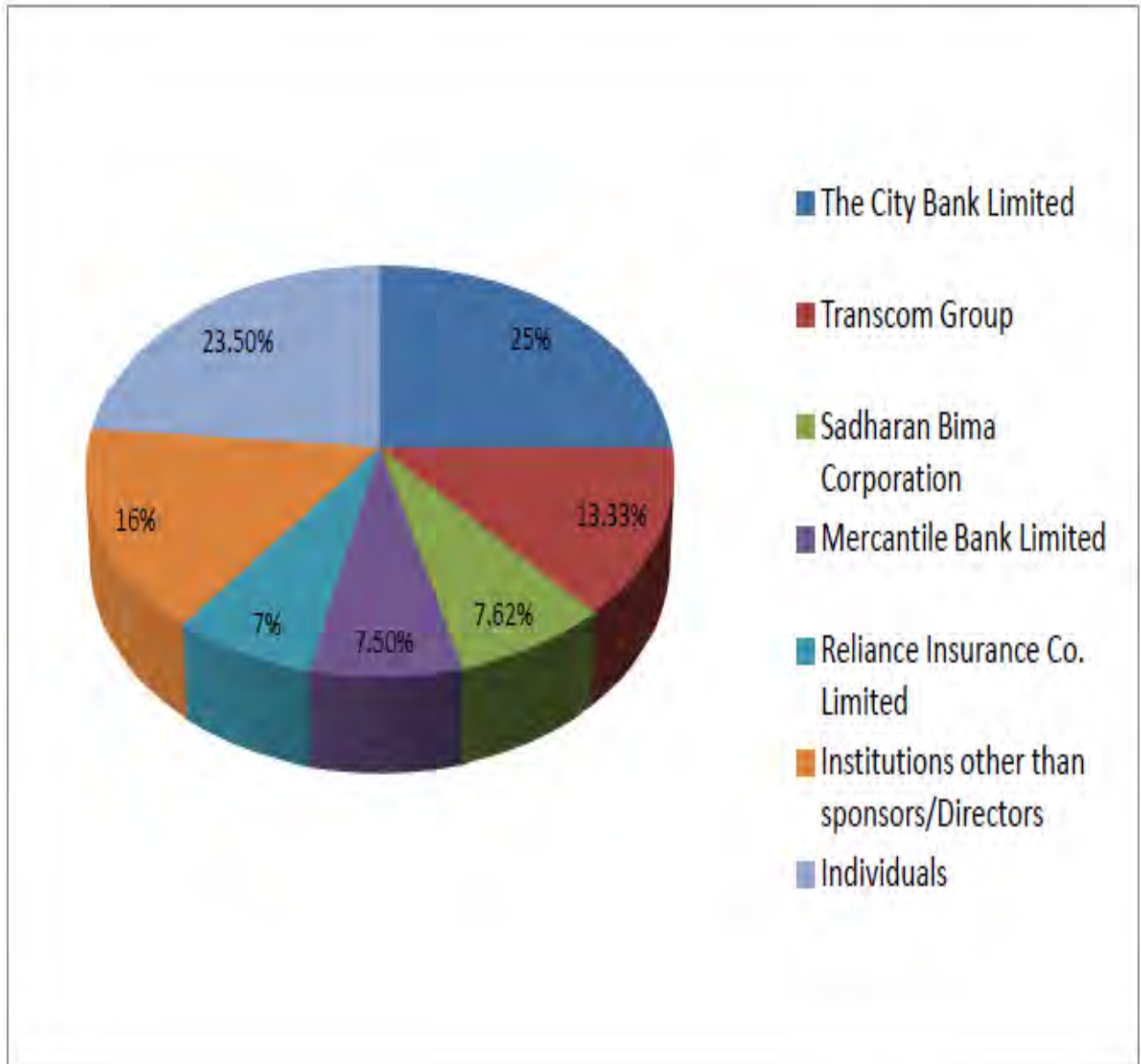


Figure: 01

2.3 Organizational Structure:

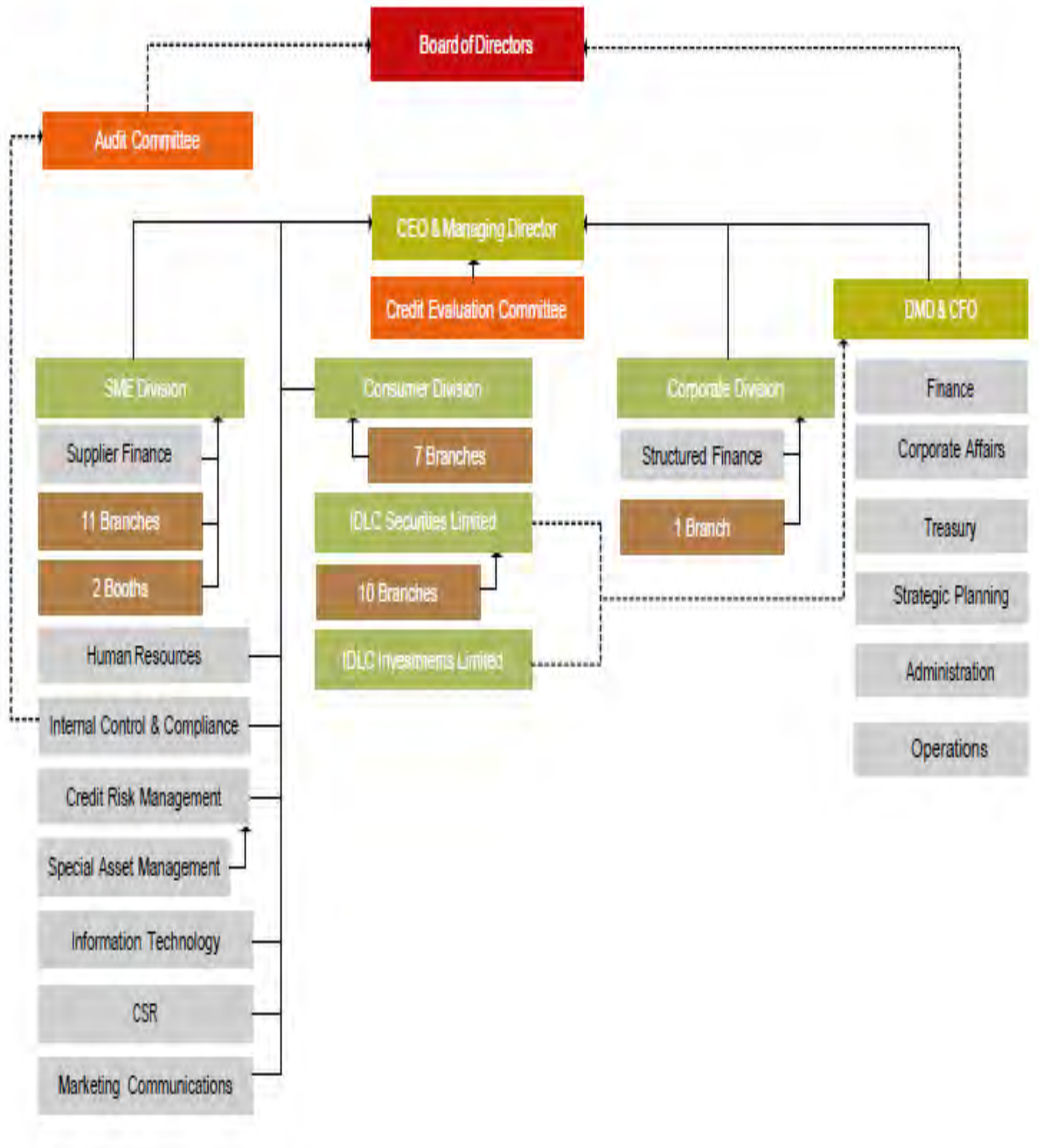


Figure: 02

2.4 IDLC Finance Products and Services:

IDLC Finance offers under major business segments – Consumer, Corporate, Small and Medium Enterprise and Capital markets -

Consumer Finance:

Deposit Schemes

- Cumulative term deposit
- Monthly/ Quarterly/ Annual Earner Deposit
- Double/ Triple Money Deposit
- Short term Deposit
- Home Loan
- Car Loan
- Personal Loan

Corporate:

- Corporate Finance
 - Term Loan
 - Lease Finance
 - Working Capital Finance
 - Project Finance
 - Refinancing and special Funds
 - Corporate Advisory services
- Structured Finance Solution
 - Fund raising (loan/ Lease/ Private Placement of equity/preferred shares/Bond/Foreign Currency Loan)
 - Project/Infrastructure Finance
 - Advisory services
 - Securitization of Assets
 - Structured Solution

Small and Medium Enterprise:

- Small enterprise Finance
 - SME Loan
 - Abashon Loan
 - Seasonal Loan
- Medium Enterprise Finance
 - Term Loan
 - Lease Finance
 - Working Capital Finance
 - Project Finance
 - Specialized Products
- Suppliers finance
- Women Entrepreneur
- Commercial Vehicle Loan

Capital Markets:

- Portfolio Management
 - Discretionary Portfolio Management
 - Margin Lending
- Invest Banking (IPO,RPO, Bond Issuance, Right Share Offering, Corporate Advisoty Etc)
- Research
- Brokerage service

2.5 Internship Experience:

I have joined in IDLC Finance Limited at June 1, 2016. I had been assigned to the Credit Administration Department of IDLC Finance Limited under the supervision of Mr. Prodduthmoy Barua, Assistant Manager (Credit Administration). I had been hired along with another intern for this department to help them to carry out their daily jobs. The intern program in IDLC Finance Ltd. was quite challenging and effective for grooming oneself as a finance leader. In the program I not only learn through various achievements but also I made contributions through different assistants in various functions to support and improve better working conditions.

The main task we were given to update their loan and lease files of medium and corporate enterprises into a software known as EDMS i.e. Electronically Data Management System. There was a certain pattern that we needed to follow while performing this task, firstly we would have to arrange the files in a chronological format which is provided by our supervisor. We have to make sure that all the important documents are there in an arranged format and the documents are properly signed by the respective authority.

Once the documents are set in order they would then be scanned and uploaded in the software using a complex naming and numbering process. In this discussion I will not go for details of the process of EDMS but I will state the reason for IDLC's usage of the software. Basically all the documents of a particular client are saved using its Loan Account (L/A) number and the files are named after the (L/A) i.e. 105-6209-666666-001_Office Memo, this would serve the purpose of locating a particular client's information by various branches of IDLC across the country. In case of any lawsuit or the client is at default then these documents act as proofs.

Besides, the loan file there are also loan booklets, which were collected by the marketing team of IDLC and handed them to the Credit Administration Department. In the internship program, I had been given responsibility to check all the documents such as name, spelling, sign, seal, date, address, TIN, Trade license along with revenue stamps of Bangladesh Bank glued on the rightful agreement paper with the correct amount.

Credit Risk Management dept. actually decides who will be financed based on the verification of client's future record and repayment behavior. If they feel any doubt of default, in that case they take security cheques from customers just to verify that customers have capacity to pay the advance/lease sum back. The security checks will be come back to customers once they pay back their rents. And there is also legal team who inspection the legal document of assets, collateral as well as the land or fixed assets documents.

Another major function we had to perform during the internship period such as sending Security Cheques to various IDLC branches upon closing of the Client's account. The Credit Administration Department had to maintain an inventory of all the security cheque's sent in by clients. There were two spreadsheets which were used; the first would keep a record of cheques present in the vault while the second would mention the cheques returned. Apart from the security cheque, we also had to go through the vault for land documents loan and lease files, we had to match the soft copy with the hard copy in terms of the location of the files. The main task was to note down whether they were at their specified location or not.

From the experience of IDLC Finance ltd, I should saw it was a great opportunity to explore the real corporate world specially the finance world. As we move up to the hierarchy order the responsibility tends to increase along with our liabilities.

Part –C

3. Report Part

3.1 E-Commerce in Bangladesh:

Electronic commerce or e-commerce is a term for any type of business, or commercial transaction that involves the transfer of information across the internet. It is currently one of the most important aspects of the internet to emerge. E-commerce has grown rapidly Worldwide and also in Bangladesh. At present internet services are available in Bangladesh. Its usage for e-commerce by Bangladeshi producers to export as well as to access inputs will be dependent on their willingness and ability to use this medium as well as that of the buyers of final products and the sellers of intermediate goods and services. In Bangladesh, among the dimensions of e-commerce, there is a limited application and use of B2C e-commerce. But a significant portion of total e-commerce websites are engaged in C2C e-commerce which is auction based commerce between consumers to consumer. Other fields are not yet much developed in Bangladesh. There are many reasons behind this one simple reason this country is not so developed and most of its citizens are poor and less knowledgeable about E-Commerce. It is quite natural that there are few customers who is willing and can shop in internet. It might take years to be developed in this sector in Bangladesh, but there are indication found that it is also growing rapidly and soon will reach at a prosperous stage. According to a recent report, there were 2.9 billion internet users around the world, a number which is forecasted to grow to 3.2 billion in 2015. Considering that the number of humans living on Earth is presently estimated at some 7.3 billion, this means that over 40 percent of the world population is interconnected through the use of internet. Based on internet uses penetration china is in the top and India in 2nd position. And Bangladesh is also in apposite growth rate of 10.4% in terms of internet uses, which is quit high in comparison to China.

| Country | Internet Users (2016) | Penetration (% of Pop) | Non-Users (internetless) | Users 1 Year Change (%) | Internet Users 1 Year Change |
|------------|-----------------------|------------------------|--------------------------|-------------------------|------------------------------|
| China | 721,434,547 | 52.2 % | 660,888,785 | 2.2 % | 15,520,515 |
| India | 462,124,989 | 34.8 % | 864,676,587 | 30.5 % | 108,010,242 |
| Bangladesh | 21,439,070 | 13.2 % | 141,471,794 | 10.4 % | 2,018,395 |

Table-01 ("Internet Users by Country (2016) - Internet Live Stats," n.d.)

The global online shopping market has shown rapid growth rates over the past years and is predicted to maintain double-digit growth over the next several years, according to a new publication by yStats.com. The yStat.com report also shows that Germany, China, Japan, the UK and the USA are projected to be the world's top countries by B2C E-Commerce sales in 2016, while emerging markets such as India are expected to show the fastest growth rates. Among the most prominent online shopping trends, pertaining to both advanced and emerging markets around the globe, are the increasing share of global online shoppers making purchases via mobile channels, the expansion of cross-border B2C E-Commerce, and the strong influence of social media on the online shopping behavior. Social media continues to fuel the B2C and B2B e-commerce market, which aims to boost electronic business process efficiency, reports T systems. E-commerce is being considered as a separate, profitable field business and intermediary actors are updating their B2B business models, while embracing aspects of social media.

3.2 Forces that influence Ecommerce in Developing Nation:

Basically three driving forces are there to fuel up the E- Commerce. Among them Economic force is the first one, then consumer market integration and the third one is the most important technological force.

Economic forces: One of the most apparent benefits of e-commerce is economic efficiency resulting from the reduction in communications costs, low-cost technological infrastructure, speedier and more economic electronic transactions with suppliers, lower global information sharing and advertising costs, and cheaper customer service alternatives (Andam, 2003). Due to those economic advantage e-commerce is becoming more popular in the business world in the recent times. Economic integration is either external or internal. External integration refers to the electronic networking of corporations, suppliers, customers/clients, and independent contractors into one community communicating in a virtual environment (with the Internet as medium). Internal integration, on the other hand, is the networking of the various departments within a corporation, and of business operations and processes. This allows critical business information to be stored in a digital form that can be retrieved instantly and transmitted electronically.

Market forces: Corporations are encouraged to use e-commerce in marketing and promotion to capture international markets, both big and small. The Internet is likewise used as a medium for enhanced customer service and support. It is a lot easier for companies to provide their target consumers with more detailed product and service information using the Internet.

Technology forces: The development of ICT is a key factor in the growth of e-commerce. For instance, technological advances in digitizing content, compression and the promotion of open systems technology have paved the way for the convergence of communication services into one single platform. This in turn has made communication more efficient, faster, easier, and more economical as the need to set up separate networks for telephone services, television broadcast, cable television, and Internet access is eliminated. From the standpoint of firms/businesses and consumers, having only one information provider means lower communications costs.

3.3 Development of E-Commerce in Bangladesh:

With the increasing circulation of ICTs, more specifically the internet, the global business community is rapidly moving towards Business-to-Business (B2B) e-commerce. The buyers or importers gain a clear advantage when the Internet gives them access to the global market, by which they can compare prices across regions, find out whether prices vary by order fragmentation, and get awareness about alternative products. Consequently, the sellers or exporters make sure that they are well portrayed in the cyber world through websites and portals. Like buyers, sellers also benefit from increased and more efficient access to the global market through the internet. Bangladesh is pursuing an economic policy of export-led growth. With the rising forces of globalization, it is becoming increasingly important that the private sector, particularly the export sectors are well prepared to meet the requirements and expectations of the importers and also stand out in the competition against exporters in other countries. In such a scenario, two issues are becoming particularly important for Bangladeshi export sectors- one, whether businesses are automating their internal processes with these of ICTs to become increasingly efficient and competitive in a global context and two, whether businesses have effective presence and participation in the cyber world. International organizations such as UNCTAD (United Nations Center for Trade and Development) and

WTO (World Trade Organization) have emphasized on the importance of e-commerce for developing countries over the last several years. UNCTAD has special programs to facilitate developing countries to transition into e-commerce. The WTO has also developed rules and guidelines for global e-commerce transactions. (Mohiuddin, 2014). It is obvious that in the era of global village market is more transparent then before. That's why business are becoming more competitive in terms of using the virtual world of communication. As a under developing nation Bangladesh is also adopt those facilities in their business too. In recent days, e-commerce is becoming more popular in Bangladeshi business environment and lots of sectors are used the beneficiary part of e-commerce. Among them the below sector are most prominent-

- Ready Made Garments (RMG).
- Banking sectors (Online Banking).
- Online Shopping.
- Web Hosting, Domain.
- Oil and Gas sector etc.
- Online Transportation System, Hotel Management and Tourism etc.

Besides these sectors there are lots of way that e-commerce made the business world more effective. The business organizations are, one of the advantageous groups, achieving their competitiveness in utilizing the interactive media to perform their promotion, communication, customer service and exchange functions. In developing countries the manufacturing, service and trading functions are largely dominated by Small and Medium Sized Enterprises (SMEs).

3.4 SMEs impact on Bangladeshi economy:

Small and Medium Enterprises (SMEs) all over the world have been playing a crucial role in promoting economic development as well as industrial production. Alike many other countries around the world Bangladesh's SMEs play strong role in employment generation as well as ensuring country's economic development. Although SMEs have the potentials, at the rapidly increasing age of internet, to utilize the newly emerged technology dependent communication and transaction medium, e-commerce, in acquiring their competitiveness.

Small and Medium Enterprises (SMEs) are the single largest industrial sector of the Bangladesh economy. SMEs are renowned for vehicles of economic growth, labor intensive, poverty alleviation, enhancing the standard life.

According to the National Industrial Policy-2010 medium industrial units in the manufacturing sector are enterprises with either the value (replacement cost) of fixed assets, excluding land and building, ranging between Tk. 100 million and Tk.300 million or the number of workers ranging between 100 and 250. In the services sector, a ‘medium industry’ is an enterprise with either the value (replacement cost) of fixed assets, excluding land and building, ranging between Tk.10 million and Tk.150 million or the number of workers ranging between 50 and 100.

In the manufacturing sector, a small industry is an enterprise with either the value (replacement cost) of fixed assets, excluding land and building, ranging between Tk. 5 million and Tk. 100 million or the number of workers ranging between 25 and 99. In the services sector, a ‘small industry’ is an enterprise with either the value (replacement cost) of fixed assets, excluding land and building, ranging between Tk. 0.5 million and Tk. 10 million or the number of workers ranging between 10 and 25.

| Size Group | No. of Workers |
|------------|----------------|
| Micro | 10 – 24 |
| Small | 25 – 99 |
| Medium | 100 – 250 |
| Large | 251 or more |

Table: 02

The small and medium enterprises (SMEs) sector was given priority in the National Industrial Policy-2010. It was stated that achieving the recently-announced Digital Bangladesh goal by 2021 and creating employment opportunities for at least one person from each household in order to reduce poverty and unemployment were among the central policy objectives of the government. There is no alternative to creating an environment conducive to development of

small and medium enterprises for attaining that goal. Attaching priority to this very fact, the National Industrial Policy-2010 has considered the SMEs as the thrust sector, given the planned and balanced development of these labor-intensive industries as the engine of growth. (Abdin, 2014)

Currently the economy of Bangladesh is witnessing transformation from an agro-based economy to an industrial one.

In Bangladesh about 90% of the manufacturing and service industries are fallen under SMEs category. SMEs account for about 45% of manufacturing value addition in Bangladesh. They account for about 80% of industrial employment, about 90% of total industrial units and about 25% of total labor force. Its total contribution to export earnings varies from 75- 80% based on the Economic Census 2001-2003 (The New Nation, 2008). According to the Bangladesh Bureau of Statistics, SME's provide about 44 percent employment of the country. It contributes Tk 14,940 crore (149.40 billion) to the GDP during the fiscal year 2006-07 (Habib, 2008)

Small and medium enterprises (SMEs) proved their potentiality in productivity, employment generation and poverty reduction as a reliable tool. As a result, policymakers throughout the world emphasize SMEs as the engine of growth and reduction of unemployment and poverty. SMEs are generating more jobs with comparatively nominal investments.

3.5 E-commerce towards SME's growth:

As SMEs are important for the economy of the country, it is vital to persuade e-commerce adoption in SMEs as the source of competitive advantages. Companies use e-commerce for a variety of reasons, as stated by Karakaya and Shea (2008). E-business will achieve and enjoy improvements in efficiency, increases in sales, increases and improvements in customer relationships, and the ability to expand to new markets and increased turnover. At the same time, SMEs also have an important role in the national and regional economic performance. In a study conducted by Poon and Swatman (1997) showed that e-commerce could positively influence SMEs' productivity, which in turn enables them to compete against

larger companies. E-commerce is a solution that would steer firms to a better financial performance and increased competitiveness and efficiency in operations.

The adoption of e-commerce by SMEs enables them to compete in the global market, and to improve their efficiency, and also closes the relationship gap between customers and suppliers. Referring to the theory of Rogers (1995) and Migiro (2006), it can be assumed that the motivations for the adoption of e-commerce in SMEs are:

1. Interaction with customers,
2. Taking orders online,
3. Increase sales,
4. New customers and market penetration,
5. Marketing strategies,
6. Improve quality of their information,
7. Increase internal efficiency and improved competitiveness.

The economy in Bangladesh is growing, due the development and the attention paid by the government to the SMEs. He added the fact that the improvement of SMEs' productivity performance is also related to the adoption of e-commerce. However, based on further research in Bangladesh by Md. Azam and Quaddus (2009), relative advantage seems to be the best prediction for innovation, and that perceived compatibility is also an important factor influencing the acceptance of e-commerce among SMEs in Bangladesh.

The different dimensions of e-commerce adoption among SMEs based on the Five Factors of Diffusion of Innovation Model derived by Rogers by illustrating the influences of this model's dimensions on the adoption of e-commerce amongst SMEs in developing nations.

Based on Rogers' Diffusion of Innovation Theory, there are five factors influencing the rate of adoption. Four out of five factors positively influences the rate of adoption, which are: Relative Advantage (the degree to which an innovation is realized or perceived as better than the idea it supersedes); Compatibility (the degree to which an innovation is perceived as being compatible with existing values, past experiences, and the needs of potential adopters); Trial

ability (the degree to which the innovation may be tested or piloted and modified) and Observe ability (the degree to which the results of the innovation are visible to others). On the other hand, Complexity (the degree to which an innovation is perceived as difficult to understand and use) negatively affects the rate of adoption. (MEHDI M. POORANGI1, 2013) Based on the research, the adoption of e-commerce enhances the levels of innovation within SMEs, and is also influential during the process of making the decision of whether or not the management is willing to adopt other IT related technologies. Moreover, these technologies are very influential vis-à-vis a firm’s current culture, and is capable of shifting a business paradigm from a traditional to a more modern era, which might represent a daunting aspect for certain managers.

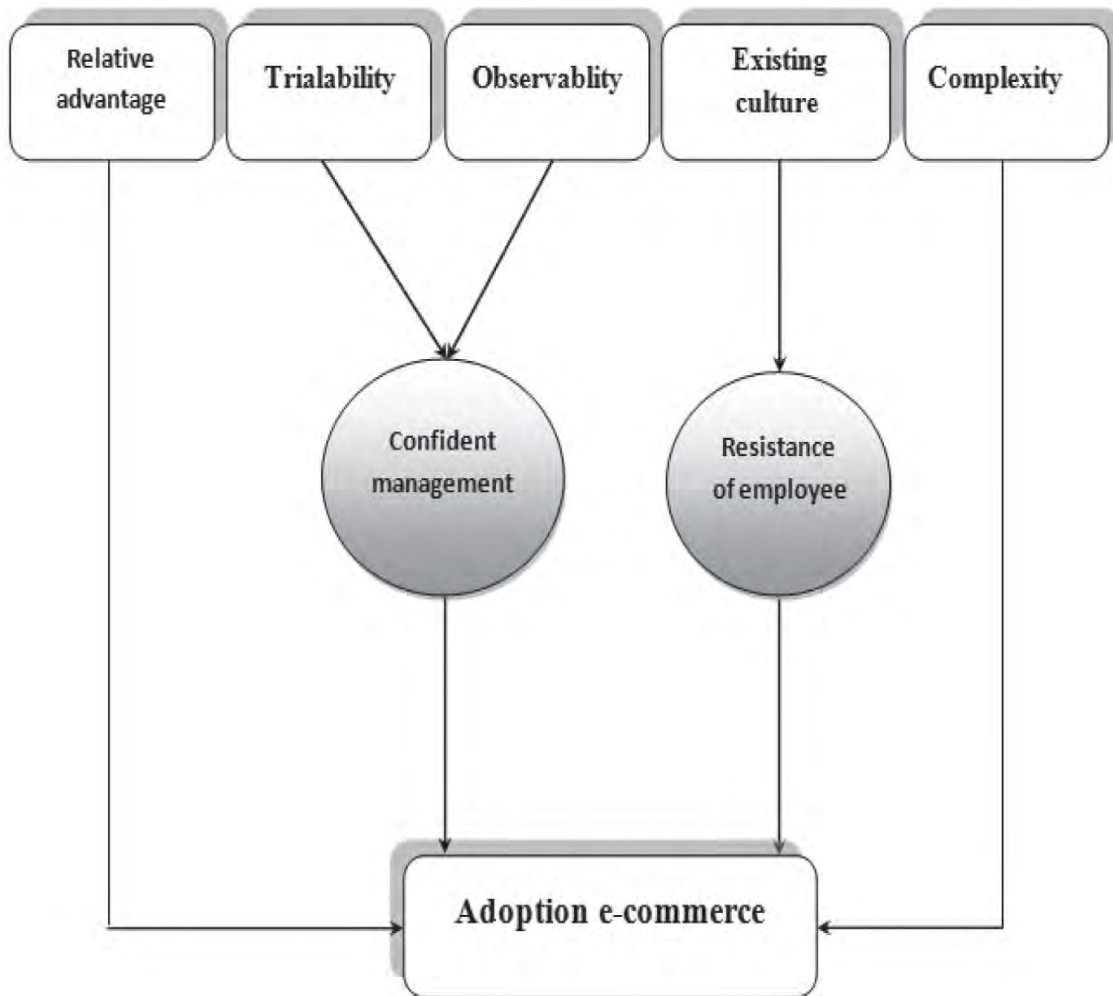


Figure: 03(Conceptual Framework)

As Small and medium enterprises are most popular business method for boosting up the economy in a developing countries, adaptation of e-commerce is most crucial thing to make the sustainable growth in SMEs business.

3.6 E-commerce role in increasing the competitiveness of SMEs:

In e-business, ICT is used to enhance one's business. It includes any process that a business organization (either a for-profit, governmental or non-profit entity) conducts over a computer-mediated network. A more comprehensive definition of e-business is: "The transformation of an organization's processes to deliver additional customer value through the application of technologies, philosophies and computing paradigm of the new economy." For SMEs in developing countries e-commerce poses the advantages of reduced information search costs and transactions costs (i.e., improving efficiency of operations- reducing time for payment, credit processing, and the like). Surveys show that information on the following is most valuable to SMEs: customers and markets, product design, process technology, and financing source and terms. The Internet and other ICTs facilitate access to this information.⁴³ In addition, the Internet allows automatic packaging and distribution of information (including customized information) to specific target groups.

Developing country SMEs in the services sector have expanded their market with the increased ability to transact directly with overseas or international customers and to advertise their services. This is especially true for small operators of tourism related services. Tourism boards lend assistance in compiling lists of service providers by category in their Web sites. For instance, BGMEA has actively deployed B2B e-commerce solutions for international RMG orders and procurement, as do several RMG companies. There are also B2B websites that feature business directories, trade deals and information about suppliers such as Bangladesh Business Guide, Address bazaar and Bizbangladesh, which, at present, have limited popularity. B2C websites have also become very popular as evidenced by the growth and commercial success of online-based home delivery of food, such as HungryNaki and FoodPanda. Meanwhile, C2C businesses, thus far, have been the life force of the e-commerce sector in Bangladesh. The leading players in this category include Bikroy, Ekhanai, and

ClickBd. With regard to B2E businesses, emplorecruitment, particularly in the private sein Bangladesh, has more or less shift online, thanks to companies such as bdjobs.com, prothom-alojobs.com, and jobsA1.

Global developments and other competitive forces are increasingly driving firms to engage in ICT-based strategies. The growing interaction that SMEs are having with foreign suppliers and clients is leading most firms in developing countries to connect to the internet for e-mail purposes. The adoption of ICT by SMEs in developing countries is largely a market-driven process and eventually it is expected that competition in ICTs will lead to greater affordability and allow SMEs to engage more in e-commerce. Global competition is a major driver in this process, particularly for export-oriented businesses. Many buyers in developed countries which would like to purchase agricultural goods or handicrafts in developing countries expect their suppliers, usually SMEs in developing countries, to be connected to the global online supply chain. E-mail, therefore, becomes a means for maintaining a business relationship. It is typically the first step in e-commerce, as it allows a firm to access information and maintain communications with its suppliers and buyers. This can then lead to more advanced e-commerce activities.

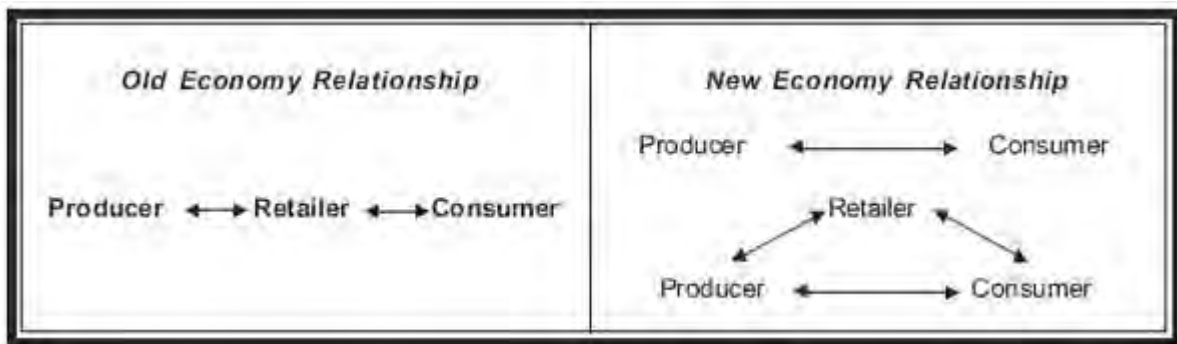


Figure: 04 (old economy relation vs. new economy relation)

E-Commerce also changed the concept of traditional economic relationship. In traditional way, there were a very few opportunity of having connection between the producer and consumer. But in this new economic view it is very easy to have direct connection among them and it became possible just because of e-commerce. In this way by the help of e-commerce Small and Medium enterprises are getting more success of having customer satisfaction along with the cost reduction of their production.

E-commerce has the ability to play an instrumental role in helping economies benefit more from trade. Unlike the requirements necessary to run a business from a physical building, e-commerce does not require storage space, insurance, or infrastructure investment on the part of the retailer. The only pre-requisite is a well-designed web storefront to reach customers. Additionally, e-commerce allows for higher profit margins as the cost of running a business is markedly less. It's become possible to run online SMEs because of e-commerce adaptation in new business era. For instance, in Bangladesh if you consider the business of DARAZ.COM, it is basically an online based consumer served company. It does not have such physical outlet but it maintains its business in a large scale with verity of product and services. Daraz might not get such coverage on market if e-commerce is not develop in such extent.

In this way, e-commerce and Small and Medium size enterprise are interrelated with each other. Business can be run with its old method but to have a competitive advantage and get success in the new era of business world e-commerce model is mandatory to adopt in any kind of business.

3.7 Barriers to adoption of e-finance in SMEs in Bangladesh:

In SMEs sector e-commerce is a blessing, although there are some barriers to overcome for having the full benefit of this blessing. The internal barriers are poor internal communications infrastructure within SME firms, lack of ICT awareness and knowledge as well as inadequacy of ICT-capable and literate managers and workers, insufficient financial resources, and the perceived lack of relevance or value-added of ICTs to their business. People play a vital role in the development of e-commerce. However, technology literacy is still very limited in most developing countries. There is a shortage of skilled workers among SMEs, a key issue in moving forward with using information technology in business. There are also doubts about whether SMEs can indeed take advantage of the benefits of accessing the global market through the Internet, given their limited capabilities in design, distribution, marketing, and post-sale support. While the Internet can be useful in accessing international design expertise, SMEs are not confident that they can command a premium on the prices for their

goods unless they offer product innovations. They can, however, capitalize on returns on the basis that they are the low cost providers.

There are some Infrastructure Barriers in terms of ecommerce, which hinder to achieve full success in SMEs. All the land area in Bangladesh is covered by an internet network; however, high speed broadband internet is not available in rural areas. Moreover, computer and related software costs are also high and power load shedding is a regular phenomenon in Bangladesh and this hinders the growth of e-business and e-finance (Azam 2007; Azam and Lubna 2005; Raihan, 2001). Internet users are limited (Khan 2005) and only few have access to credit cards to engage in online payment systems. Most SMEs do not have a computer, or access to the Internet or related software to benefit from e-commerce (Dewan and Nazmin 2008).

Ensuring security of payments and privacy of online transactions is key to the widespread acceptance and adoption of e-commerce. While the appropriate policies are in place to facilitate e-commerce, lack of trust is still a barrier to using the Internet to make online transactions.

Cost is another crucial issue. The initial investment for the adoption of a new technology is proportionately heavier for small than for large firms. The high cost of computers and Internet access is a barrier to the uptake of e-commerce. Faced with budgetary constraints, SMEs consider the additional costs of ICT spending as too big an investment without immediate returns. Due to insufficient collateral and high transaction costs, SMEs in Bangladesh cannot obtain loans from institutional sources (Rikta 2007). As they have limited finance (National Task Force Report on SMEs 2004), ICTs investment is a low priority (Dewan and Nazmin 2008). SMEs often face strong competition from foreign operations and domestic smuggling. The commercial functions of NGOs also compete with SMEs (The Financial Express 2006). Markets for SMEs products and services are mainly limited to the domestic market; consequently their motivation for investment in ICT is limited.

These barriers are the reason for not getting the fullest success in SMEs in Bangladesh. To achieve more economic growth development of SME sector is must and to do so we need to overcome those barriers of e-commerce also.

Part D

4. Research Part

E-commerce has a strong influence on flourishing SME business in Bangladesh, we already come to know that based on different journal and previous report on that topic. Here I, also done small survey on different online based SME organization randomly to get the real scenario of e-commerce adaptation factor in Bangladesh. However, due to time constrain the sample size is very small, but I have try to make it fair enough to get the real image of e-commerce adaptation in SME. In this survey I have tried to focus on tools they use in their SME business, how they increasing SME business through e-commerce facility etc. Based on some hypothesis I try to establish the fact that how much the SME organization benefited by adopting the e-commerce in their business over the years. As it is a very important context in this modern era of business, I hope that this research findings will be very helpful for expanding the SME business in Bangladesh.

4.1 Types of research:

There are three basic types of research, Descriptive, Relational and Causal. This research is a Descriptive research. In descriptive research is the data analysis of different variables through the finding of survey raw data. Different diagram, chart etc. are used to represent a proper scenario from the raw data.

4.2 Sample size:

In this report the sample size is not so big. Though the population was the whole online based SME organization, but in this report I used 27 sample randomly through online source.

4.3 Research Question:

Dose E-Commerce plays a positive role to enhance the SME competitiveness in Bangladesh?

5. Finding analysis

5.1 Frequency Analysis:

E-commerce impact on SME

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|----------------|-----------|---------|---------------|--------------------|
| disagree | 6 | 22.2 | 22.2 | 22.2 |
| neutral | 3 | 11.1 | 11.1 | 33.3 |
| agree | 10 | 37.0 | 37.0 | 70.4 |
| strongly agree | 8 | 29.6 | 29.6 | 100.0 |
| Total | 27 | 100.0 | 100.0 | |

Table: 03

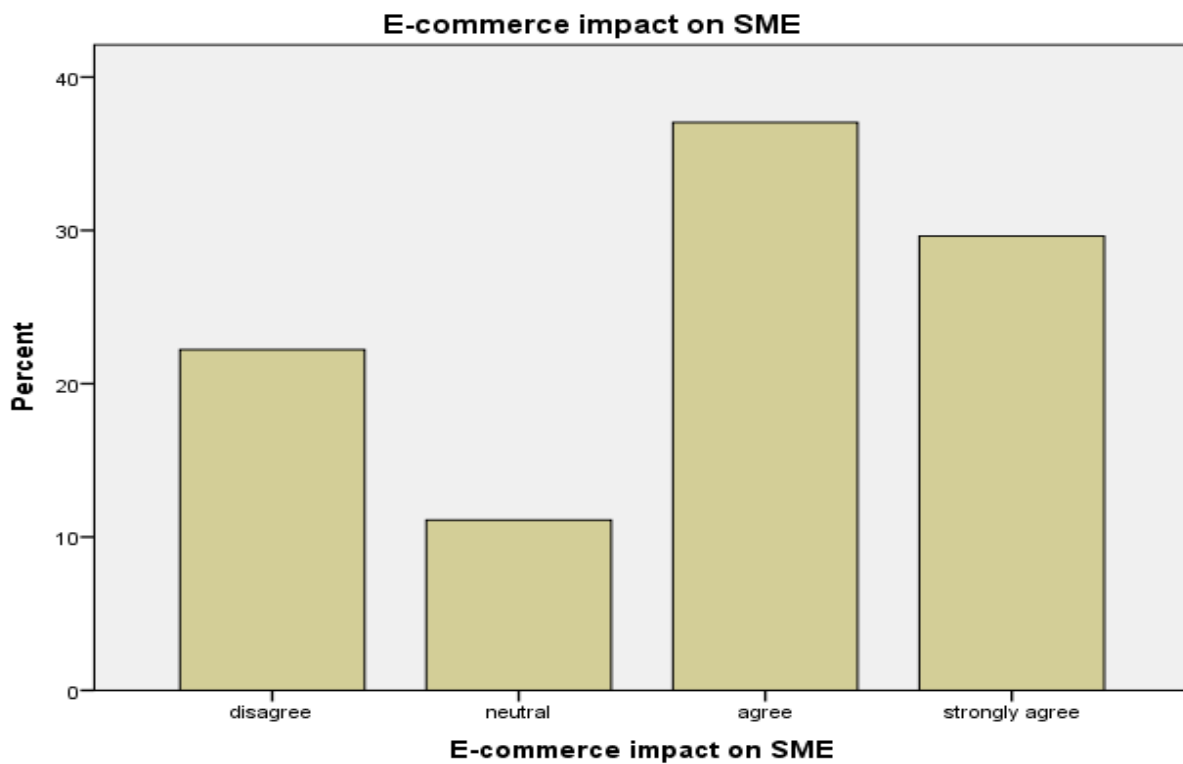


Figure: 05

In this part we can see that, 37% SME organization think there is a very positive impact of e-commerce in their business. And they believe that e-commerce plays a very important role in terms to flourishing their business.

Online tools used by organization

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|------------------------|-----------|---------|---------------|--------------------|
| Valid email | 7 | 25.9 | 25.9 | 25.9 |
| web pages | 14 | 51.9 | 51.9 | 77.8 |
| online data management | 6 | 22.2 | 22.2 | 100.0 |
| Total | 27 | 100.0 | 100.0 | |

Table: 04

Availability of website

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|----------------------|-----------|---------|---------------|--------------------|
| Valid Yes | 13 | 48.1 | 48.1 | 48.1 |
| not yet but wants to | 9 | 33.3 | 33.3 | 81.5 |
| under process | 5 | 18.5 | 18.5 | 100.0 |
| Total | 27 | 100.0 | 100.0 | |

Table: 05

Among the organization who believes that e-commerce enhance their business, 51.9% uses the facilities of web pages, 25.9 % of them use Email as a regular communication tools and 22.2 % organization use different online Data management tools. And 48.1 % organization has their own web sites for showcasing their product and services.

Besides all the positive sides of E-commerce in enhancing the SME business in Bangladesh there are some barriers this survey has identified. Among them the cost barrier and the safety issue of online communication are the major factor behind the slow adaptation of e-commerce in SME business over the last few years.

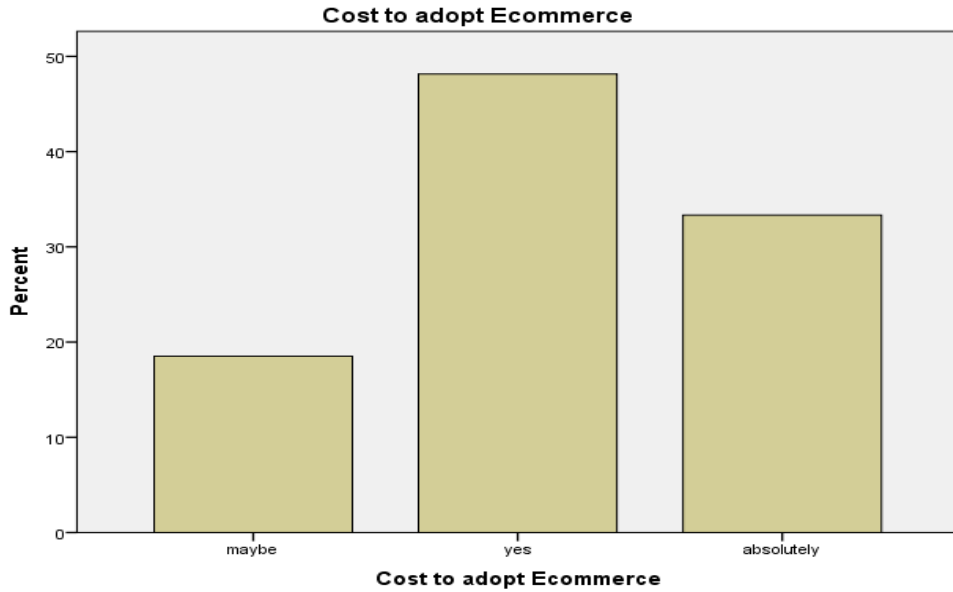


Figure: 06

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|------------------|-----------|---------|---------------|--------------------|
| Valid maybe | 5 | 18.5 | 18.5 | 18.5 |
| Valid yes | 13 | 48.1 | 48.1 | 66.7 |
| Valid absolutely | 9 | 33.3 | 33.3 | 100.0 |
| Total | 27 | 100.0 | 100.0 | |

Table: 06

Here, 48.1% SME owners think that adaptation cost is one of the major issue for which they do not adopt e-commerce in their business yet.

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|----------------------------|-----------|---------|---------------|--------------------|
| Valid not satisfactory | 2 | 7.4 | 7.4 | 7.4 |
| Valid partial satisfactory | 4 | 14.8 | 14.8 | 22.2 |
| Valid average | 11 | 40.7 | 40.7 | 63.0 |
| Valid satisfactory | 8 | 29.6 | 29.6 | 92.6 |
| Valid fully satisfactory | 2 | 7.4 | 7.4 | 100.0 |
| Total | 27 | 100.0 | 100.0 | |

Table: 07

On the other hand, 40.7 % SME owner thinks the security facility of different e-commerce tools are average. They think if the security issue developed more than the ecommerce adaptation rate will increase a lot in near future.

5.2 Chi-square test analysis:

Before doing all the Chi-square test analysis, we would select our test significance level is 5% which means we can consider a test result will support the alternative hypothesis if the error level is up to 5%.

| Chi-Square Tests | | | |
|------------------------------|---------------------|----|-----------------------|
| | Value | df | Asymp. Sig. (2-sided) |
| Pearson Chi-Square | 16.737 ^a | 6 | .010 |
| Likelihood Ratio | 19.948 | 6 | .003 |
| Linear-by-Linear Association | .024 | 1 | .877 |
| N of Valid Cases | 27 | | |

a. 11 cells (91.7%) have expected count less than 5. The minimum expected count is .22.

Table: 08

Analysis:

Step 1: Null hypothesis: H_0 = There is no association between Online tool used by SME organization and No of order get through online source.

Alternative hypothesis: H_a = There is an association between Online tool used by SME organization and No of order get through online source.

Step 2: By using SPSS we run the chi-square test for analyzing the association between Online tool used by SME organization and No of order get through online source.

Step 3: From the Chi-square table, we have found $X^2 = 16.737$ and significant level is $= \frac{.010}{2} = .005$ or 0.5% which is less than the pre-determined significant level. So, we can reject the null hypothesis.

Step 4: From this test we can say that there is an association between Online tool used by SME organization and No of order get through online source.

5.3 Cross tabulation analysis:

Cross tabulation between Percentage of online order and online tools used by organization

Online tools used by organization * Percentage of online order Cross tabulation

| Count | | Percentage of online order | | | | Total |
|-----------------------------------|------------------------|----------------------------|--------|--------|---------------|-------|
| | | below 25% | 25-50% | 50-80% | more than 80% | |
| Online tools used by organization | email | 2 | 4 | 1 | 0 | 7 |
| | web pages | 0 | 1 | 12 | 1 | 14 |
| | online data management | 2 | 3 | 1 | 0 | 6 |
| Total | | 4 | 8 | 14 | 1 | 27 |

Table: 09

From the cross table analysis, we can see that, the SME organization which have their own Web pages like FB page or any blog or web site they get almost 50-80 % order through online source. This e-commerce facility makes easy their ordering process, which has increase their number of order through online source. Which makes the popularity of promotion through more in now a days.

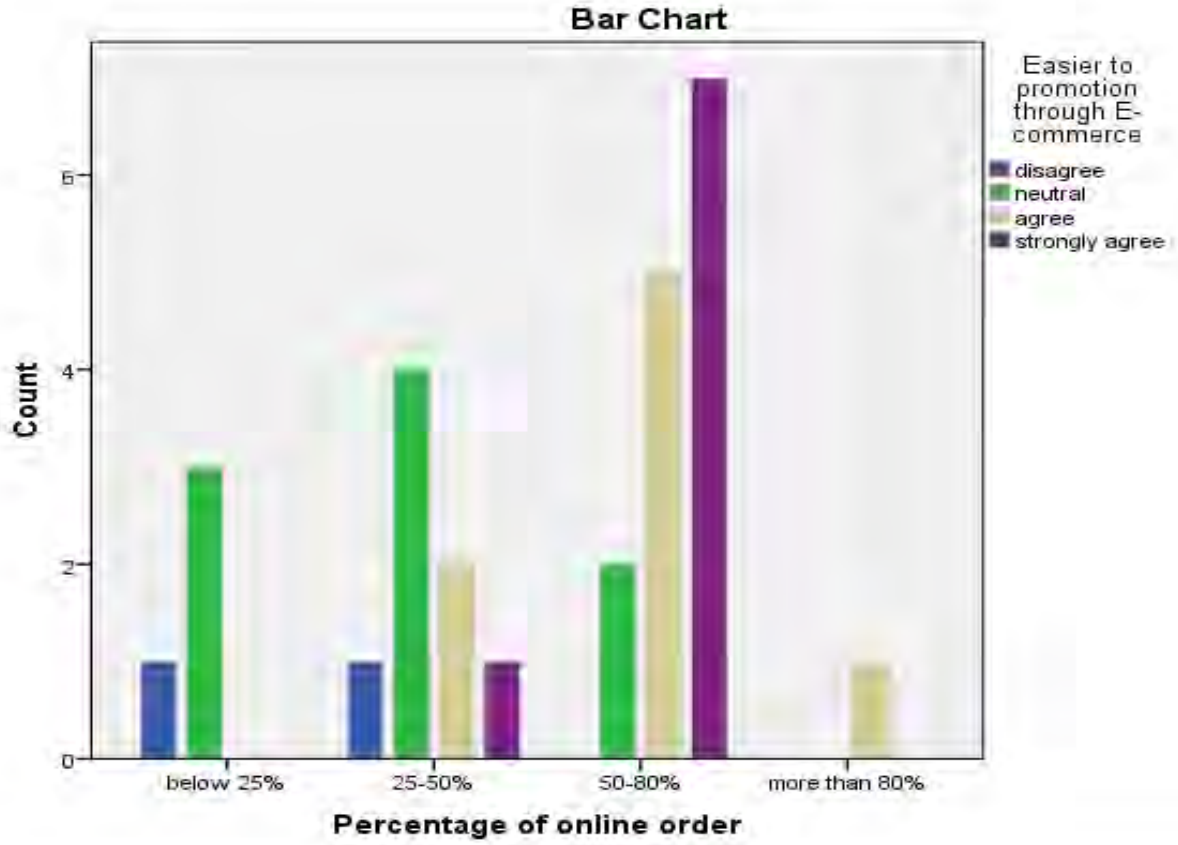


Figure: 07

In this graph shows that SME owner gave their opinion that they get 50-80% of their order through online source because it easier to promote their product through e-commerce facilities.

6. Recommendation

Small and medium enterprises (SMEs), the bedrock and engine of Bangladesh's economic growth, did well throughout 2015. Realizing its potential, both the government and the Bangladesh Bank are putting significant emphasis on SMEs by providing various stimulation initiatives. Put together, all the banks and NBFIs disbursed a total of Taka 1.16 trillion in 2015, exceeding the target set by the Bangladesh Bank by 10.79% and thus served 60 SME sectors in such industries as light engineering, handicraft, flower and fish processing, handloom, rice mills, jamdani, Rajshahi silk, khadi, biogas and compost fertilizer, among others (annual report, 2016). It is obvious that SME sector will grow further in near future but this growth will sustain if some recommendation fulfilled. Some of the basis recommendation are given below, which will help to flourish SME in Bangladesh along with the E- Commerce sector.

1. **Bridging the digital divide:** there should be link or easy access to get the access of information network. And to do so high speed and easily operated internet facility need to be established.
2. **Legal recognition of e-commerce transactions:** all the new E-commerce innovation method need to be promoted and the transaction process need to be legalized after proper security check.
3. **Consumer protection from fraud:** a proper guide line should be there in terms of any fraud case through the E-commerce transaction or any other way.
4. **Protection of consumers' right to privacy:** consumer rights any privacy also need to be address, so that they can have trustworthiness towards the product and service the want to get.
5. **Protection of intellectual property:** All types ok intellectual property should be protect. As it is a virtual world concept of business, so it is very easy to get copied of any business concept. That's why protection of intellectual property is very important.

These are some basic recommendation to make the growth of SME sector more sustainable with the safety ensure in e-commerce sector in Bangladesh.

7. Conclusion

In Bangladesh SMEs play an important role in narrowing down the regional economic difference, as well as, generating growth, creating employment and alleviating poverty. Lack of finance is one of the major problems an SME faces in Bangladesh. Because of higher transaction costs, lack of adequate collateral and information, financial institutions in Bangladesh do not provide adequate finance to SMEs (Chowdhury 2007). If E-commerce is properly executed in the SMEs sector then the financing cost would be less costly, as online lending reduces loan origination costs by up to 80 % compared with traditional methods, and loan processing becomes faster, easier and more convenient. Furthermore, obtaining information about SMEs would also be cheaper for financial institutions due to the availability of online information databases. Consequently, requirements for collateral would also be less. Lack of awareness regarding the benefits of e-finance, inadequate infrastructure, limited access to ICT, absence of sufficient rules and regulations, and security of online payments, all act as barriers to the adoption of e-finance by SMEs in Bangladesh. If Bangladesh Government, IT and Financial support institutions and other concerned authority work together to adopt e-finance for SMEs then there is potential for success. Thus government, appropriate authorities and concerned parties should look at the issue with due importance and proper modalities should be governed to foster the adoption rate. The legal mechanism, technological infrastructure, particularly the internet connectivity, financial infrastructure and delivery infrastructure of the country should be reformed and adequately developed for facilitating the smooth operation of e-commerce by the concerned sectors.

8. Appendix

Survey on- The role of e-commerce to enhance the competitiveness of SME in Bangladesh.

This survey aims to identify the e-commerce impact on SMEs in Bangladesh to enhance its competitiveness. All the responses are maintained with high confidentiality and only use for the purpose of intern report under the course of Bus400.

1. Do you believe e-commerce has a positive impact on your Small & medium enterprise organization?

Mark only one oval.

| | | | | | | |
|-------------------|---|---|---|---|---|----------------|
| strongly disagree | 1 | 2 | 3 | 4 | 5 | strongly agree |
|-------------------|---|---|---|---|---|----------------|

2. How long your organization has been adopt the facilities of e-commerce?

Mark only one oval.

- less than 3 years
- 3-5 years
- 5-10 years
- more than 10 years

3. What types of online tool your organization usually used to run for its business?

Mark only one oval.

- Email
- web pages
- online data management

4. Do you have website for showcasing/ ordering your product?

Mark only one oval.

- yes
- not yet but wants to
- under process

5. What percentage of order did you get through the online source?

Mark only one oval.

- below 25%
- 25-50%
- 50-80%
- more than 80%

6. Do you have any online payment policy available for your Organization?

Mark only one oval.

- yes
- not yet

7. If yes, what is the method?

Mark only one oval.

- Mobile/ online banking
- bkash
- Visa card
- others

8. What would be most convenient way of meeting with your vendor?

Mark only one oval.

- online communication
- face to face
- others

9. What would your organization preference of getting product/ service feedback from consumer?

Mark only one oval.

- online/ web based review
- direct opinion
- online evaluation form
- others

10. Do you think your SME organization get more effective promotion just because of e-commerce adaptation?

Mark only one oval.

| | | | | | |
|--------------|---|---|---|---|------------|
| not actually | 1 | 2 | 3 | 4 | absolutely |
|--------------|---|---|---|---|------------|

11. E-commerce makes your business promotional activity easier?

Mark only one oval.

| | | | | | | |
|-------------------|---|---|---|---|---|----------------|
| strongly disagree | 1 | 2 | 3 | 4 | 5 | Strongly agree |
|-------------------|---|---|---|---|---|----------------|

12. Does e-commerce add any value in comparison with previous scenario?

Mark only one oval.

- yes
- nothing change

13. Do you think adaptation cost is a barrier for installing e-commerce in SME business?

Mark only one oval.

| | | | | | | |
|------------|---|---|---|---|---|------------|
| not at all | 1 | 2 | 3 | 4 | 5 | absolutely |
|------------|---|---|---|---|---|------------|

14. Does e-commerce facilities are the main reason flourishing your SME business unit?

Mark only one oval.

- yes
- not actually

15. Are you satisfy with the security ensure by the modern technology inbuilt in the E-commerce facilities?

Mark only one oval.

| | | | | | | |
|------------------|---|---|---|---|---|---------------|
| Not satisfactory | 1 | 2 | 3 | 4 | 5 | Fully satisfy |
|------------------|---|---|---|---|---|---------------|

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