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## **DETERMINANTS INFLUENCING THE DECISION TO START AN ONLINE BUSINESS – THE CASE OF POLISH SMALL AND MEDIUM SIZED ENTERPRISES**

### **Abstract**

M. E. Porter said that the Internet is an extremely important new technology (...) and presents a powerful set of tools that can be used, wisely or unwisely, in almost any industry and as a part of almost any strategy (Porter, 2001). Including the Internet in the activity of a company requires the analyses of the environment factors and internal conditioning of a given company. External factors exist at three levels: macroeconomic, industry, and national policy level (Lefebvre, Lefebvre, 1996). These external factors affect the general and competitive environment within which a particular firm has to operate. Internal factors of the firm include characteristics of the firm, its past experience and attitude towards technology and the pursued strategy (Dholakia, Kshetri, 2004). The article presents the main reasons determining the decision to start business online.

**Key words:** general outlook on conditions, marketing, information and Internet services

### **Introduction**

The Internet has been one of the greatest inventions of the 20th century. It has become a power which enables its users to use effective tools which, according to M.E. Porter, can be applied in a wise or an unwise manner in most businesses and strategies (Porter, 2001). The way the Internet is used depends on both market conditions that a company operates under and its resources. The number of factors determining the way the Internet is used has been increasing and the nature of their mutual connections becomes complicated due to the globalization and diffusion of new technologies as well as an increased popularity of the Internet. The Internet has been widely used because of two factors: easy access and a number of ways it can be used. It is expected that between 2000 and 2007 the number of Internet users will have quadrupled and reached 1.5 billion. The e-market, which is currently estimated at over US \$ 600 billion, will experience a similar dynamic increase.

The global network is a potential source of establishing competitive advantage. From the marketing point of view, the Internet has got the following features: global range, ability to cross borders, multimedia and interactive character, speed and easy access, lower costs in comparison with traditional media, attractiveness and innovation. Table 1 presents a list of some marketing benefits and drawbacks.

Table 1. Marketing benefits and drawbacks of SME

<b>Marketing drawbacks</b>	<b>Marketing benefits</b>
Can show weakness vs. competition	Better competitive position, both locally and nationally

Cost of establishment and maintenance	Better measurement of consumer interest
Difficult to correct a bad impression	Promotion 24h/7days a week/365 days a year
Difficult to establish what and how much information to give	More customer accessibility
Problems of security of information	Better customer service

Source: own compilation.

The number of companies which decided to include the Internet in their business activity has been increasing since it is a popular and attractive medium of both communication and sales. A company’s success stems from several simultaneous reasons dependent on internal and external factors.

**Exogenous factors**

External determinants affecting the decision to start a business activity online include infrastructure, regulations and government policy, extent of demand, present and future users’ attitude.

The degree of computer and telecommunication infrastructure development is marked by the following indexes: expenditure on modern technologies and its contribution to GDP, rate of computerization of households and companies, technical capability and kind of network access, market saturation with mobile phones in general and with mobile phones with access to the network in particular.

According to Internet Software Consortium, the number of hosts for every 1000 inhabitants index best describes the usage of the Internet. In 2000 the index for Poland was 5. for example, in Germany – 27, Great Britain – 50, Denmark – 74 (Kisielnicki, 2002). In spite of the index increase in subsequent years, Poland still falls behind countries of average European index of approximately 50 hosts.

Another macroeconomics factor determining technological environment is a level of expenditure on modern technologies. In the years 1995-2001, i.e. before new countries joined the European Union, the EU members allocated 7% GDP to the development of modern technologies, whereas the expenditure on modern technologies in Poland was on the level of 4%, far less than in the Czech Republic, Hungary and Slovakia. Such a low index does not support a rapid implementation of programmes of building an information society as it is a priority for the European countries taking part in the eEurope programme. This has been proven by latest report done by “The Economist” weekly magazine which aimed at assessing projects supporting the application of modern technologies and e-business development. Denmark, the USA, Sweden, Switzerland, Great Britain and Finland have been classified high in the ranking. Although Poland has had a slightly higher position in the ranking than in 2004 (in 2004 Poland was classified in 36th position, in 2005 in 32nd position), it still falls behind other new members of the EU, e.g. Estonia, Slovenia, the Czech Republic and Hungry (The 2004 ..., 2005).

Existing regulations greatly determine the role of an effective use of the Internet. Present regulations do not allow to run a safe online business and this fact is reflected in a conservative attitude of potential users and purchasers. This concerns the following problems in particular:

- Control of information flow and authentication,
- Control of taxation of e-business transactions,
- Flawed ways of personal details protection,
- Prosecuting and punishing for computer crime,

- Copyright law obedience.

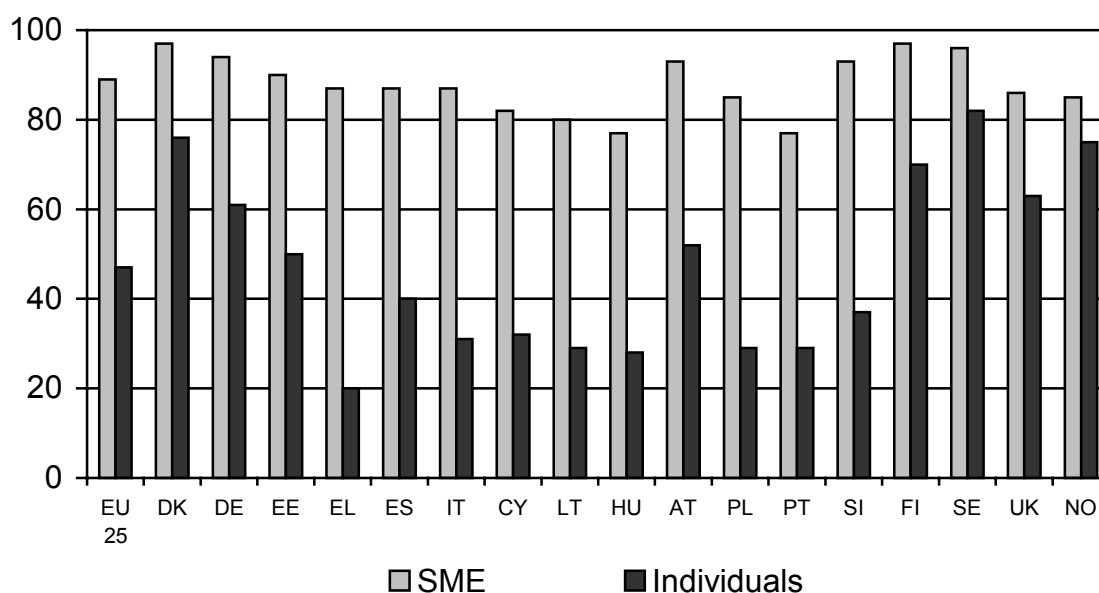
One of the factors that makes the Internet development in a group of small and medium sized enterprises more dynamic is a possibility of dealing with administrative tasks online. There are four levels of the public services online development:

- Possibility of searching for essential information,
- Possibility of searching for information and downloading appropriate forms,
- Possibility of searching for information and downloading appropriate forms as well as sending them online,
- Assurance of performing all above mentioned activities solely online.

Poland is in the first stage of development. Polish enterprises tend to use the Internet to send completed forms, to receive forms and to obtain information (60%, 47% and 52% respectively in 2005).

From the company's point of view, one of the greatest problems is the potential customers' market assessment. The number of customers whom companies' offers are aimed at, has been increasing steadily since 1998 when the number of Internet users in Poland soared. According to the latest research carried out among people at the age of 15 and over, the number of Internet users in Poland is approximately 10 million. Access to the Internet is common among individuals as well as households. In July 2004 36% of householders in Poland had personal computers, only 26% of which had an access to the Internet (it accounts for less than a half of the European average). (Chart 1)

Chart 1. Percentage of individuals and SMEs which have access to the Internet in EU



Source: Compiled on the basis of Interent usage... op. cit., p. 2.

Both individuals and companies indicate lack of need and costs as reasons of not using the Internet. Costs are another important factor influencing the company's online development perspectives. The costs include hardware and software costs and telecommunication costs. On average, users from developing countries pay three times more for one hour of the Internet connection in comparison with users from the United States. Polish Internet users emphasise the negative influence of the Internet costs on its popularity.

Before making a decision to start a business online managers should analyze attitudes of Polish consumers and managers towards the Internet as the market demand is determined by their attitudes towards the Internet. The global network is identified with a tool of communication and searching for information. This requires designing strategies paying special attention to the above mentioned facts. Barriers, especially lack of confidence, noticed by the Internet users are also of key importance. In 2004 45% of individuals and 26% of Polish companies had problems connected with security maintenance on the Internet. According to Polish companies, the following factors make online business difficult: insufficient knowledge of the Poles, lack of confidence in online transactions, high costs of hardware and software as well as the Internet link. Other reasons, i.e. lack of hardware, staff reluctance or advanced technology have not been mentioned.

### Endogenous factors

Internal conditions of a company operation are as important as external ones. Internal conditions include management style, development strategy, organization of production, organizational structure, resources and the way they are developed. There is a strong connection between the size of a company and the degree of its computerization and the extent to which it uses the Internet. However, managers' opinions about the Internet seem to be more important. As Polish research shows, managers are far more critical of the system and market factors than their own resources and knowledge (chart 3). In those companies where computers are used on a daily basis the fear of high costs is the most. The barriers refer to the market rather than the companies themselves (Chart 2).

Chart 2. Five most important barriers preventing Internet development in companies and in Poland



Source: Internet w firmach sektora małych i średnich przedsiębiorstw (2002).

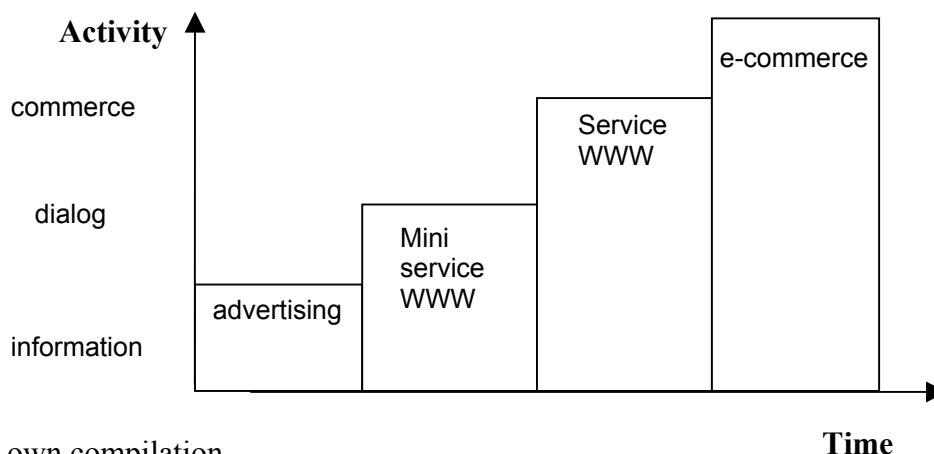
In spite of the managers' declaration, lack of knowledge about the Internet is one of the barriers. In those companies which do not have access to the Internet there is a common belief that the company would not benefit from the Internet and that companies not operating on the Internet are not perceived as obsolete. According to the survey carried out among managers by Ipsos, the Internet is perceived by managers as a potential source of new customers and an increased turnover only in big companies. Another reason why they are reluctant to implement the Internet facilities in their companies is a too low degree of their penetration of the Polish market. Such a situation is a result an enterprising approach. In today's economy changes of predicting highly probable scenario of a market event are minimal. Therefore,

knowledge and flexibility are becoming merits. A. Kaleta emphasizes that only those managers who are resourceful, possess managerial skills, knowledge and proper material resources are inclined to succeed.

### Present state of the Internet use by small and medium sized enterprises in Poland

The technology adoption SME's behavior may be described as a phased involvement (chart 3). In the beginning, the first step of this process is to have access to the Internet.

Chart 3. Process of development of e-marketing



Source: own compilation.

The Internet has been present in the Polish economy for a relatively short period of time. The year 2000 turned out to be a breakthrough. Poland witnessed a rapid expansion of new portals, ISP services and electronic banking. However short the period was, almost 100% of big and medium sized enterprises marked their presence on the Internet, while 81% of small enterprises were present on the Internet. It has been noticed that the bigger a company is the less interest it shows towards the Internet. The EU average for big companies is 99% while for small and medium sized ones it is 89%, for Poland the rates are 85% and 72% respectively. With the average index of 85% Poland is close to the European average where Sweden, Belgium, Austrian and German markets are the most advanced. Online transactions are conditioned by a company's presence on the Internet. The Eurostat research shows that Polish companies are the least positive towards the Internet, especially in comparison with such EU leaders like Scandinavian countries and Ireland (table 2).

Table 2. Polish small and medium sized enterprises with access to the Internet in comparison with chosen European countries in 2004 (%).

Country	EU25	PL	BE	DK	DE	CZ	HU	LT	IT	PT
Internet	89	85	96	97	94	90	77	80	87	77
WWW	71	56	75	87	81	72	46	51	59	43
Purchasing via Internet	31	9	38	57	50	31	14	13	15	16
Selling via Internet	11	4	15	26	16	13	6	5	8	6

Source: Compiled on the basis of Internet usage ... op. cit., p. 2, Internet activities... op. cit., p. 6.

The biggest group of small and medium sized enterprises established their own web pages between 1996 and 1999 (43.7%) (table 3). That period was marked by the first dynamic stage of the Internet development while the second dynamic stage of the stable growth has been continuing up to now.

Table 3. The year that companies began to carry out business transactions supported by the Internet (%)

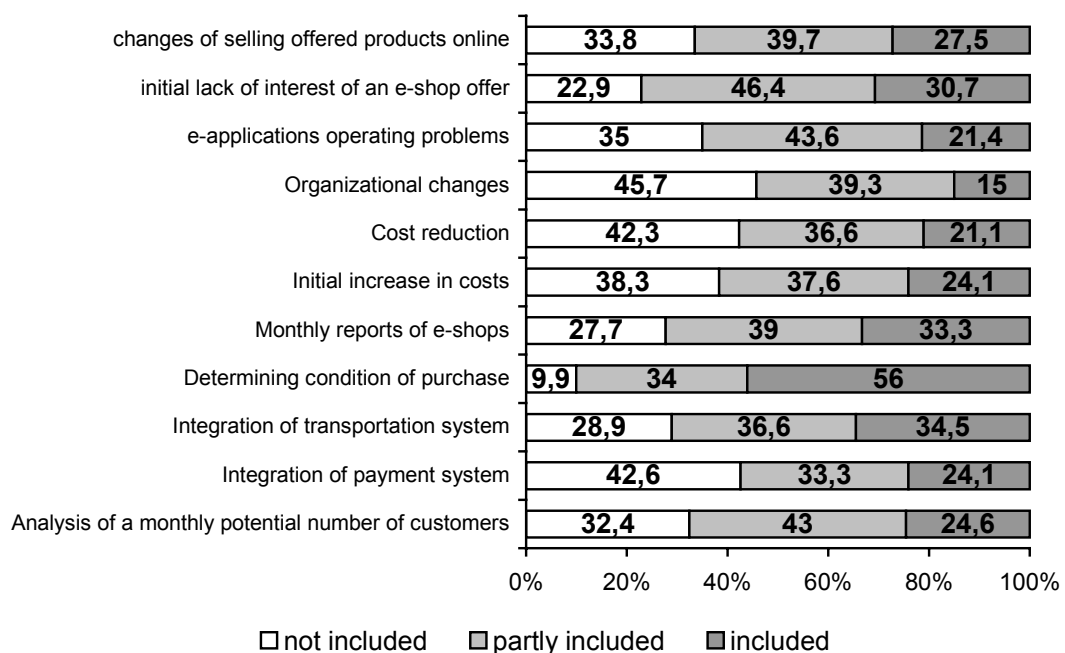
Year	N=472	Enterprises		
		micro	small	Medium
Until 1990	0,6	-	0,7	4,3
1990-1996	5,3	5,6	5,1	4,3
1997-1999	17,8	16,7	18,1	23,9
2000-2002	49,6	49,3	52,2	43,5
2003-2004	26,7	28,5	23,9	23,9

Source: (Kucia, 2005, p. 91).

The transactional function of the Internet came into use relatively late in relation to the moment when the use of the Internet began. Until 1999 only 32.5% of small and medium sized enterprises in relation to 22.3% of small enterprises carried out e-transactions. The period between 2000 and 2002 was a breakthrough in e-business. However, only a small percentage of Polish companies sell through the Internet. About 5% of small and medium sized enterprises sell through the Internet (Wykorzystanie ..., 2005]. An analysis of data from the years 2003-2004 shows that the index of online payment has not changed significantly.

According to M. Kucia’s research, Polish small and medium sized enterprises do not have sufficient knowledge of a proper design and implementation of an e-shop. Such attitude can affect the proper functioning and development of an e-shop (chart 4).

Chart 4. Conditions determining the decision to start an e-shop.



Source: (Kucia, 2005, p.93).

Respondents indicated three factors creating the biggest barriers preventing Polish e-commerce from developing. The barriers are created by factors connected with optimization, streamlining of attitudes and opening up new markets. Only 10% of all sale is done online. This fact shows that Polish small and medium sized enterprises perceive the Internet as a source of information and its role in sale is only supportive. Still, there are not many companies aware of legal regulations that govern e-business. This is the reason why the Internet expansion over operating of small and medium sized enterprises has to be looked into in qualitative rather than quantitative categories.

## Conclusions

The Internet can be a source bringing notable benefits due to good points it has and only a few limitations. In case of small and medium sized enterprises the perspectives of opening up new markets and expanding business activities seem to be especially attractive and possible because of the Internet. Investing in the Internet does not have to generate costs. The aim that a company wants to achieve and its preparedness are more important.

Most Polish companies have already been computerised and they are present and use the Internet. Those companies which do not have computers and access to the Internet attribute this fact to the lack of need and less often the necessity to bear costs they cannot afford. Online sales performance in 2004 was a real cause for optimism. There has been an increase in sale in Polish Internet shops by 280% (921 million zlotys). The number of Internet users has been increasing steadily and the age group is more diverse; more and more institutions, including self-government, contribute to the building of information society. Hence, those companies which ignore the possibilities of the Internet are doomed to fail. It is obvious that the process of adopting the Internet to the business practice is greatly influenced by system solutions determining the removal of barriers that prevent companies from entering online market and possibilities of business initiatives. In case of the Polish market system solutions include infrastructure, regulations and potential purchasers' attitude. However, the external factors cannot be ignored as they can act as either the driving force or a brake on changes.

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