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## **Research Paper**

# E-commerce Adoption Practices and Prospects of SME in Addis Ababa, Ethiopia

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#### Abstract

Nowadays, the diffusion of Internet and E-commerce has brought a number of countries to be connected globally in terms of economic aspects. In the new economic era, in which information becomes life, it is difficult for businesses without e-commerce adoption. Thus, the SME were not the exceptional one. The main objective of the study was to explore the e-commerce adoption practices of small and medium enterprises in Ethiopia. To address this purpose, data were collected from representative 351 SMEs in Ethiopia through questionnaire. Accordingly, the study result revealed that:e-commerce practices in promoting, selling and delivery of goods and services were more or less dominated by social media modality than firm websites. Thus, the opportunity of internet expansion in Ethiopia and the challenges of covide -19 paved the way of road map to better Ecommerce adoption in the country. Similarly, the study shows 72.17% the SMEs were adopted E-commerce to some extent using various devices while 27.34% of the respondents were not engaged in e-commerce adoptions. The survey result also revealed that, the Chi Square test indicates that the year of business operation has significant association with e-commerce adoptions (p- value = .000). This confirmed that the prior year of business experiences have significant influences on e-commerce adoption. The implementations of E-commerce adoption in the Ethiopia were not the easy things due to low infrastructure and awareness of society. Even right now there are inconsistencies in E-commerce practices between businesses. Nevertheless, the findings also demonstrated that the diffusion of internet and ICT into small and medium scale business normally paralleled with an astonishing booming in social media such as Tik tolk, youtube, Facebook, telegram, Twitter, Instagram, whatsup, Google+ and other collaborative tools. Hence, government and concerned institutions like financial institutions have to support the expansions of e-commerce by SME.

Keywords: SMEs, E-commerce adoptions, Ethiopia, technology

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## I. Introduction

In early stage of human life, business transactions were carried out face -to -face, which is more of manual, through agreements between the seller and the buyer to meet in a specific place. However, it is being run electronically or through internet technology in many parts of the world presently. According to Kalakota and Whinston(1997)E-commerce involves the application of web-based information technologies towards automating business processes, transactions and workflows, and buying and selling information, products, and services using computer networks. In this era, E-commerce technology has the potential to become a major source of competitive advantage to businesses because it is a cost effective way of reaching customers globally and competing with other firms locally (R. Sujatha&M. S. Karthikeyan, 2019).

Currently, trade in Africa has the potential to be revolutionized by Information Communication Technologies (ICTs), which have led to the development of E-commerce. These technologies have the capacity to advance intra-country and inter-country trade, and consequently; it is expected to promote economic development in African countries. Conversely, in many African countries, e-commerce is not penetrated as to the extent experienced by western countries to get the full benefits of e-commerce.

Small and medium-sized enterprises (SMEs) are vital to the country's economic development and the gross domestic product (GDP), in developing countries such as Malaysia, Singapore, Indonesia, Vietnam, Thailand and Myanmar and Africa. According to the World Bank (2015) estimation, it required 600 million jobs in the next 15 years to meet the growing global labour demand. Generally, SMEs will respond to more vacancies in Asia and sub-Saharan Africa to fill these positions (gaps may be more preferable than positions).

The global workforces are available obligations to benefit. However, 90% of organizations aimed at SMEs to provide more than half of the international business opportunities.

On the other hand, e-commerce adoption in SMEs is limited because their characteristics vary from country to country, from business to business and those of large organisations. As Kreiser et al., (2010) stated, the SMEs have small management team, strong owner influence, low employee turnover, and are reluctant to take risks. On top of this, owing to their smaller size and risks involved, SMEs have a strong reluctance to adopt any new technology. Marasini et al. (2008) also explained that there is an inherent need for development of low-cost, reliable solutions tailored to meet the needs of SMEs. R. Sujatha&M. S. Karthikeyan(2019)have also listed the inhibiting factors for the adoption of e-commerce as fear of information technology (IT),resistance to change, trust, commitment of time, high initial set-up cost, costs incurred because of the change, weak skill base, security/privacy issues, lack of training opportunities and networking, ownership of data, intellectual property, lack of awareness about ICT, and lack of proven best practice examples

Today, without e-commerce adoptions, doing business in classical way is not a guarantee for success. Hence, the study primarily initiated to explore of e-commerce adoption practices to small and medium sized enterprises in developing country in general, and in Ethiopia in particular to indicate possible direction for better e-commerce diffusions.

#### II. Rational of the study

Currently most of Ethiopia's market is characterized by direct face-to-face interaction with customers at sales locations or shops, while some SMEs have their own E-commerce business to run their routine activities. Some small enterprises that are established with the help of the government may not even have a separate shop; therefore, they depend heavily on government's timely market facilitations. Setting up another shop is not economically viable for many enterprises which make it very difficult for them to be addressable and competent in the business. Beside this, majority of the enterprises in Ethiopia have a marketing problems after their production which push the stakeholders to look for option of where and how to sell their products and services easily.

To overcome these challenges the governments of Ethiopia enter agreement with Alibaba founder Jack Ma on E-commerce platform in year 2019 to help Ethiopian entrepreneurs to sell their products for world consumers via online. In addition to this the government has issued legislative framework for proper implementations of the E-commerce adoption by Ethiopian producers and consumers.

However, still there are many problems exists in the process of e-commerce development among the majority of SMEs in Ethiopia. From very beginning, some SMEs are not fully aware of the importance of ecommerce on enterprise development. Beside this, most enterprises have no a standard and method to assess the performance of e-commerce, this means that these enterprises cannot make a rational analysis of electronic commerce development. At the same time, small and medium-sized enterprises tend to overlook the process of enterprise information development, personnel training and management innovation in the development of electronic commerce. Most SMEs just rely on the disposable website construction by the Network Company, and do not make real use of e-commerce business processes for enterprise informatization. In addition, they do not strengthen the collaboration in the supply chain of this informatization process, so it is difficult to enhance the enterprise operation efficiency through the electronic commerce. But the study of conducted in Ethiopia even by Ethiopian researcher are very scanty in the field of E-commerce adoption and practices. The followings are study undertaken on E-commerce in Ethiopia Elizabeth A, Lemma L.and Mariye Y,(2010) undertake assessment on E-Commerce Readiness in Ethiopia: A Macro-Level Assessment. Their assessment was initially tried to explaining the difference among the fundamental concepts of ecommerce, e-readiness and e-commerce readiness. Their review of major e-commerce readiness studies conducted and models developed both at the regional and international level. For their study purpose among the models, the Asia-Pacific Economic Cooperation (APEC) self-assessment tool was selected as an appropriate instrument for adoption and development of a measure for e-commerce readiness in Ethiopia by these researchers.

Michael Abebe (2014) conducted empirical research on Electronic commerce adoption, entrepreneurial orientation and small- and medium-sized enterprise (SME) performance in University of Texas-Pan American, Edinburg, USA. In his study he concluded that e-commerce adoption has a significant, positive influence on SMEs' average sales growth rate and that adopters of e-commerce technology have significantly higher average sales growth rate than non-adopters.

Wegene Demeke et.al (2016) also tried to identify factors affecting the adoption of information and communication technologies in small Hotels and Tour operators in Addis Ababa, Ethiopia. The finding of the study show the major factors that affect the adoption arise from the national level factors such as the political, socio-economic, technological and legal factors that play a critical role in the adoption or rejection of ICT in this sector in the country.

Nagender Singh et.al (2016) also investigate Consumer acceptance of apparel e-commerce in Ethiopia. In this study, an online survey has been used to obtain the feedback from the customers all around Ethiopia; the results of their study revealed that the inability to physically interact with an item, fear of risk security and privacy and lack of e-commerce infrastructure are the main barriers that prevent the consumers from online apparel product shopping.

The study of Kelala and Mesfin (2017) on E-commerce framework for Micro and Small Enterprises in Ethiopia were conducted by adopting design science research method. The finding of their study also identified first the most determinant e-commerce factors for Ethiopian MSEs from related studies. The framework features they designed include users, policy and regulations, awareness and supporting industries (telecommunication service providers, environmental factor side, technological factors, organizational factors side

To sum up, most scholars agree that there are different factors that affect e-commerce adoptions and there are various E-commerce models for different countries. The scholars have conducted most of their study on big firms not SMEs. However, none of these studies show the e-commerce adoption practices by SMEs in Ethiopia.

Therefore, the motive behind this study is to explore E-commerce practices by small and medium scale enterprises in Ethiopia.

#### III. Research Methods

In the study descriptive research design was utilized. The populations for this study were all SMEs operating Addis Ababa which is the capital city of Ethiopia. The target respondents were employees, managers (general, marketing, sales, man, reservation, it expert and owners) by the individuals' who were in charge of ecommerce activities within the SME. According to, Federal Micro & Small Development Agency of Ethiopia (FMSAE, 2018) SMEs operating within the towns were 3973 which includes Industry and Service. The sample size selected here is considered as representative from service sectors: retails, urban transport services provider, star hotel and some selected hospitals and from industry: textile and garment, food processing and, wood and metal work. This stratification of SMEs was based on the Ethiopian SMEs agency registration of SMEs based on the sector they involved. Based on various data sources, 3973 SMEs were chosen as sampling frame for this study and 386 of SMEs were selected through simple random sampling techniques that were participated in this study and 351 respondents were filled the questionnaire in correct manner and, a response rate of 90%.

### IV. Results

The E- commerce adoptions by SMEs in Addis Ababa were presented in the following sections based on the information and reply of sampled respondents.

# 4.1 Availability of Websites and Internet connectivity in SMEs business

As some scholars argued the path of website development and internet penetration is late in Ethiopia (Demeke & Olden, 2012). In fact during this study period, the website development and internet connective were in the better position as compared to the past decades. The country is formally connected to the internet system in 1997 when the world fully entered into the fourth industrial revolution. However, the speed of website and internet connection were increasing fastly, for instance, right now Ethiopia has launched 5G internets in Addis Ababa to enable online selling and other business operations, which is the sign good progress. This opposes with the finding of Atnafu (2015) which stated as, as compared to the rest of world, access to internet and internet penetration in Ethiopia is as low as 1%. Also contracted with interruption, continual shutdown and high prices of the broad band internet distinguished the nature of internet system in Ethiopia (Demeke & Olden, 2012). More over the finding of Demeke, Olden and Nocera (2016) noted that since the successive Ethiopian governments control the telecommunication and internet system, the ownership, competitiveness, affordability and availability of ICT and the internet were limited. Nevertheless, the Ethiopian telecom industry was partially privatized, right now foreign company (safar.com) joined Ethiopian telecom industry for better connection expansions and competition.

On top of this, Small and Medium scale enterprises were asked whether they had official website and internet connection for their business in Addis Ababa. As shown in the following table 72.2 %( n=293) of the sampled business have official business websites where as 27.3 %( n=111) of sampled SMEs have no official websites. When we see the course of website development and internet connectivity, as shown on figure below, almost all of businesses were connected to the internet system with different devices including mobile. This show that majority of the business has their own business websites. However, this means, the presence of company website and internet connection was not a guarantee to adopt e-commerce if political, legal, telecommunication, infrastructural and socio-economic related problems remains unsolved.

**Table 1:** Existences of website in SMEs business

Do you have websites?	Frequency	Percent
Yes	293	72.2
No	111	27.3
Total	406	100.0

Source: Survey of 2022

#### **4.2 E- Commerce Adoption Practices of SMEs**

Under this section, the percentage of SMEs practiced e-commerce adoptions, year of E-commerce practices, type of E- Commerce implementation modalities and forms of E-commerce modalities adopted by SMEs Addis Ababa were discussed. From very beginning, the survey result shows that proportion of SMEs engaged in E-commerce from total of sampled SMEs business. Thus 72.17% the SMEs were adopted E-commerce effectively using various devices while 27.34% of the respondents were not fully engaged in e-commerce adoptions.

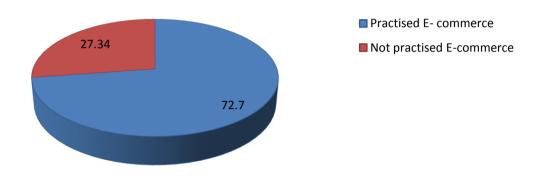


Fig 1. E-commerce adoption practices by SME

## 4. 3. Year of E-commerce practices

The year of e-commerce adoption is linked with the diffusion of internet technologies in the country. As the survey result revealed, 5.72% of respondents were using E-commerce from one year to five years, 21.43% of small and medium scale enterprises were used for than five years and 26.35% of respondents were practiced the E-commerce for less than one year. From this it is possible to remark that there were good experiences in practicing the E-commerce in the last five years in Addis Ababa in particular, Ethiopia in general.

According to the survey result, all small and medium scale enterprises were not equally adopting e-commerce at the same time. There were early, late and laggards adopters of e-commerce. This classification was made based on how long it took them to adopt e-commerce. Accordingly, as shown on the following chart the prior e-commerce experience was classified into three age categories. The first groups were, 51.7 %( n=157) adopted e-commerce for the last 1-5 years, the second group, 26.35 %( n=65) adopted e-commerce between 5-10 years and that last group 21.43 %(n=73) adopted e-commerce before 10 years. However, the average age of e-commerce adoption for all SMEs was 4 years

# 50-50-40-20-20-10less than one year between 1-5 years more than five years

# how long they used e-commerce

Fig 2. Duration of e-commerce adoption

how long they used e-commerce

In the following table, year of business operations were cross tabbed with e-commerce adoptions to check whether the year of business operation has association with e-commerce adoptions of SMEs.

Table 2: The cross tabulation of year of business operations with e-commerce

Year of Bu	siness operation * Adoption in e	-commerce Cross	Tabulation		
		Adopted e-commerce		Total	
		yes	No		
Year of business operation	less than 1 year	0	111	111	
	between 1-5 years	293	0	293	
	Total	293	111	404	

Pearson Chi-Square: 404.000, df=1 Sig. = 0.000

Source: Survey of 2022

The survey result revealed that, the Chi Square test indicates that the year of business operation has significant association with e-commerce adoptions (p- value = .000). This confirmed that the prior year of business experiences have significant influences on e-commerce adoption, as shown on table above, as the year of business operation increases the number of e-commerce adopter also increases.

Similarly the crass tabulation was done in table 3 between the type of SMEs business and e-commerce adoption practices. From all the sampled business 327 of SMEs were e-commerce adopters, while 77 of SMEs were not. With respect to type of business adopted e-commerce, retail business were the top followed by IT and Repairs. The business engaged in hotel and tourism services also significantly large as compared with manufacturing and transport sectors. This implies that from all SMEs in the city, services sectors were dominantly adopted e-commerce. The Chi Square test result indicated that the type of business has significant association with e-commerce adoptions (p- value = .000)

Table 3: The cross tabulation of types of business with e-commerce practices

	Type of business * Engag	ged in e-commerce Cross T	<b>abulation</b>	
		Engaged in e-commerce		Total
		yes	No	1
Type of business	Manufacturing	16	8	24
	Retail business	135	31	166
	Transport	18	3	21
	Hotel and Tourism	75	12	87
	IT and Repairs	83	23	106
	Total	327	77	404

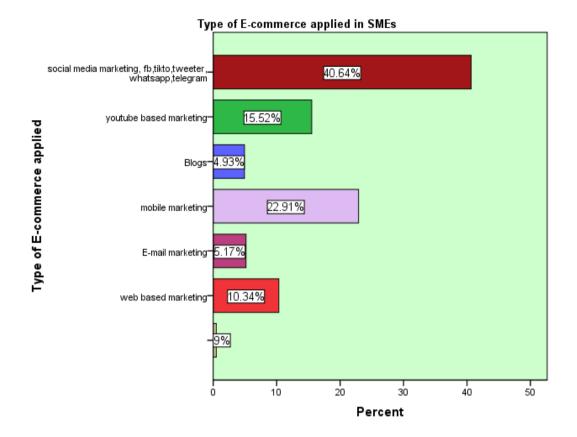
Pearson Chi-Square 73.378<sup>a</sup> Df=4 sig =.000

Source: Survey of 2022

### 4.4 The Type of E- Commerce adoption Modalities

The implementations of E-commerce adoption in the Ethiopia were not the easy things due to infrastructure and awareness from society. Even right now there are inconsistencies in E-commerce practices between businesses. Nevertheless, the findings also demonstrated that the diffusion of internet and ICT into small and medium scale business normally paralleled with an extraordinary booming in social media such as Tik tolk, youtube, Facebook, telegram, Twitter, Instagram, whatsup, Google+ and other collaborative tools. This means there is the likelihood for them to utilize the new technologies to directly communicate with their prospective customers and to build on competitive advantage. The development of information infrastructure and causes of Covid 19 help them to be customer centric, responsive and relevant to the customers at every stage of the customer journey because failure to do so has led to losses in the market shares. This were also supported by the works of Loureiro (2018), the ongoing technological innovation have brought countless ranges of opportunities for SME of Addis Ababa allowing them to sell, deal, processes orders, conduct electronic market research, promote products to the specific target market and develop new business models for the creation of values and satisfaction for customers.

As, illustrated on figure below, 40.64% SMEs businesses were utilizing social media like face book, tick tolk, telegram, what sup and others, 29.91% of SMEs used mobile market as tool of e-commerce, 15.52% used YouTube based marketing to market their products and services, 10.34% of SMES in Addis Ababa used the company based website for E-commerce, 4.93% used their blog, and 5.17% used e-mail marketing as medium with customers and their company. In fact, tick tolk, youtube and telegram were mostly utilized in the country for product promotions and customers' connections. Even though there were attractive practices of E-commerce adoptions, by SME in Addis Ababa in different modalities, the contributions of blog, website and other user generated contents as marketing tool were low.



The results of the study confirmed that, social media marketing was widely used to communicate with their customers. They have the better chance to build and maintain closer relationships. By directly accessing to their customers, they can increase their interaction and enhance purchasing frequency and customer loyalty. The findings alsoconfirmed that 22.91% of SMEs businesses used mobile marketing to market their products and services. This could be very important for them to deal with customers due to availability of and portability of mobile phone by customers, Of course to adopt E-commerce in full-fledged form the SMEs should have their own website, the increasing use of websites determines the successes of SMEs businesses and to tailor the marketing strategy to meet the needs of more customized customers.

Similarly, the rapid internet revolution, the impact and utilization of social media marketing has become very significant in SMEs of Addis Ababa, Ethiopia. As seen from figure 14 almost majority of them used social media as a marketing medium (Tiktolk,facebook,telegram,youtube). This means they attempted to make social media as an integral part of their marketing strategy. With this they have an endeavor to engage their customers in a more customized way to identify and fulfill their prescribed preferences.

Nevertheless, blogging, affiliate marketing, search engine marketing were not widely utilized within these SME businesses. Besides the businesses were not increased the visual cues of their products and services. They were not fully improved the web pages of their organizations listing to appear in favorable web rankings in search engines. To evaluate the association between types of e-commerce and e-commerce adoption practices of small and medium scale enterprises, the following cross tabulation was drawn.

Table: 4 Type of e-commerce applied \* e-commerce adoption practices Cross tabulation

Table. + Type of e ed	ommerce applied — e commerce adopt	ion praetice	b Crobb tubun	111011
		Engaged in e-commerce		Total
		yes	no	
Type of e-commerce applied	web based marketing	34	8	42
	E-mail marketing	18	3	21
	mobile marketing	79	14	93
	Blogs	12	8	20
	YouTube based marketing	49	14	63
	social media marketing,	101	64	165
	facebook,,tikto,tweeter,whatsapp,telegram			

Т	Total	293	111	404

Pearson Chi-Square=23.575, Df=5, sig= .000

Source: Survey of 2022

As shown on the above table, the Chi Square test result indicates that the type of e-commerce adoption has significant association with e-commerce adoptions (p- value =.000). This confirmed that the prior year of business experiences have significant influences on e-commerce adoption, as shown

#### 4.5. Forms of E-commerce Modalities Adopted by SMEs Addis Ababa

E-commerce is a business model that allows businesses and consumers to make purchases or sell things online. There are many different types of ecommerce business models to choose from, and today it's easier than ever for creative founders to use them to make their ideas a reality.

The stage of electronic technology advancements in 21<sup>st</sup> century brought a lot of e-commerce options for business people to run their operation virtually.

Based on the form e-commerce network that helps the SMEs to interact with other parties, the following forms of e-commerce were prioritized by sampled SMEs.

Table 6: E-commerce modalities adopted by SMEs in Ethiopia

Frequency	Percent	
341	84.0	
54	13.3	
8	2.0	
1	.2	
406	100.0	
	341 54 8	341 84.0 54 13.3 8 2.0 1 .2

Sources: Survey result of 2022

In B2C e-commerce modalities the firm sells its products directly to their end-users. For instances, anything you buy in an online store as a consumer from the firm store is done as part of a B2C transaction. The decision-making process for a B2C purchase is much shorter than a business-to-business (B2B) purchase, especially for lower-value items. Because of this shorter sales cycle, B2C businesses typically spend less marketing , money to make a sale while having a lower average order value and fewer recurring orders than their B2B counterparts.

The second model was, B2B business model, in which a business sells its product or service to another business. Sometimes the buyer is the end-user, but often the buyer resells to the consumer. B2B transactions generally have a longer sales cycle, but higher-order value and more recurring purchases.

The third one is C2B businesses allow individuals to sell goods and services to companies. In this ecommerce model, a site might enable customers to post the work they want to be completed and have businesses bid for the opportunity. The C2B ecommerce model's competitive edge is in pricing for goods and services. This approach gives consumers the power to name their prices or have businesses directly to meet their needs.

Lastly, C2C ecommerce was also another e-commerce model which referred as online marketplaces connects consumers to exchange goods and services and typically make their money by charging transaction or listing fees. C2C businesses benefit from self-propelled growth by motivated buyers and sellers, but face a key challenge in quality control and technology maintenance.

The results of the study showed that the forms of E-commerce modalities in E-commerce Adoption in Addis Ababa were categorized as indicated on the table above. The sampled response revealed that the Business to Customer adopters 84% (n=341), Business to Business commerce were adopters 13.3% (n=54), consumer to business adopters were only 2% (n=8) and 0.2% (n=1) were consumer to consumer e-commerce adopters. This implies that Business to Customer which accounts 84% of the proportion hold the major modalities of business e-commerce in Addis Ababa. Nevertheless, the consumer to business and consumer to consumer e-commerce adoption form were not significantly applied in the study area.

E-commerce business model						Total
Type of Business			E-commerce	business model		Total
Type of Business		Business to customer	Business to Business	Consumer to Business	Consumer to consumer	
Manufacturing	Count	24 <sub>a</sub>	5 <sub>a</sub>	1 <sub>a</sub>	O <sub>a</sub>	30
	% within type of business	80.0%	16.7%	3.3%	0.0%	100.0%
	% within E-commerce business model	7.0%	9.3%	12.5%	0.0%	7.4%
	Total	5.9%	1.2%	0.2%	0.0%	7.4%
Retail business	Count	81 <sub>a</sub>	12 <sub>a</sub>	3 <sub>a</sub>	Oa	96
	% within type of business	84.4%	12.5%	3.1%	0.0%	100.0%
	% within E-commerce business model	23.8%	22.2%	37.5%	0.0%	23.8%
	Total	20.0%	3.0%	0.7%	0.0%	23.8%
Transport	Count	12 <sub>a</sub>	3 <sub>a</sub>	$O_a$	O <sub>a</sub>	15
	% within type of business	80.0%	20.0%	0.0%	0.0%	100.0%
	% within E-commerce business model	3.5%	5.6%	0.0%	0.0%	3.7%
	Total	3.0%	0.7%	0.0%	0.0%	3.7%
Hotel and	Count	120 <sub>a</sub>	19 <sub>a</sub>	2 <sub>a</sub>	$O_a$	141
Tourism	% within type of business	85.1%	13.5%	1.4%	0.0%	100.0%
	% within E-commerce business model	35.2%	35.2%	25.0%	0.0%	34.9%
	Total	29.7%	4.7%	0.5%	0.0%	34.9%
IT and repairs	Count	104 <sub>a</sub>	15 <sub>a</sub>	2 <sub>a</sub>	1 <sub>a</sub>	122
	% within type of business	85.2%	12.3%	1.6%	0.8%	100.0%
	% within E-commerce business model	30.5%	27.8%	25.0%	100.0%	30.2%
	Total	25.7%	3.7%	0.5%	0.2%	30.2%
Total	Count	341	54	8	1	404
	% within type of business	84.4%	13.4%	2.0%	0.2%	100.0%
	% within E-commerce business model	100.0%	100.0%	100.0%	100.0%	100.0%
	Total	84.4%	13.4%	2.0%	0.2%	100.0%

Pearson Chi-Square (4.838<sup>a)</sup> DF (12) Sig (.971)

Source: Survey of 2022

Each subscript letter denotes a subset of E-commerce business model categories whose column proportions do not differ significantly from each other at the .05 level.

As indicated in the table test results Pearson Chi-Square 4.838, Degree of freedom 12 and Sig values of 0.971 which was greater than p-values >.05 demonstrating the fact that the null hypothesis was accepted. This implies there were no statistically significant differences within different type of SMEs business in E-commerce adoption business modality.

#### V. Conclusions:

The study was conducted on e-commerce adoption practices of SMEs in Ethiopia. The study revealed that the e-commerce adoption years, types of e-commerce and modalities e-commerce adoption the country. The findings demonstrated that the diffusion of internet and ICT into small and medium scale business normally paralleled with an astonishing booming in social media such as Tik tolk, youtube, Facebook, telegram, Twitter, Instagram, whatsup, Google+ and other collaborative tools in Ethiopia . Hence, government and concerned institutions like financial institutions and ICT professionals have to support the expansions of e-commerce by SME

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