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Digital Economy Challenges Faced by Micro, Small and Medium Enterprises in Rural Settings: A Case Study of Uromi Esan North East, Edo State Nigeria

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Abstract

This study examined rural MSMEs participation in digital economy and the challenges encountered. The study revealed that MSMEs in rural area had 57% participated in digital economy. The challenges limiting MSMEs participation in digital economy were found to be lack of digital marketing skills, high cost of data, poor network availability, high cost of digital tools, constantly changing technologies and high cost of training on digitization. The potential of participations is quite high as internet savvy ability, ownership of personal computer and a smart phone were at appreciable means levels. The study concluded that rural MSMEs participate averagely in digital economy and recommended that data which is the oil that drive digital economy should be subsidized by the government in order to make it affordable for rural MSMEs, good networking infrastructure should be installed in rural communities to encourage digital economy participation and rural inclusion and free digital training skills should be organized for rural MSMEs owners by the government and Non-Governmental organizations (NGOs) to improve digital proficiency of market players (MSMEs).

Keywords: Digital, Economy, Participation, Challenges

Introduction

Digital economy is defined by Oxford Dictionary as “an economy which functions primarily by means of digital technology, especially electronic transactions made using the internet” (oxford Dictionar.com). It is seen as conducting business through markets based on the internet and the World Wide Web. The incident of Covid-19 has caused organizations all over the world to realize that only those that overhaul the whole of their management/administrative systems and operations to fit current reality of digitization and globalization are likely to survive and prosper. Therefore, pressures of competition and the need to maintain a high level of efficiency and productivity have forced organizations to catch on to the technological craze. Thus, in order to place themselves in a favorable position to meet the growing expectations of their customers, and become organizations or co-operations to be reckoned with, more organizations are making use of technology to smoothen and speed up the process of management and administration of their firms.

As digital economic innovations is forcing companies to rethink their organizational models. The Nigerian government is gearing up structures to catch up with global realities of digital economy. Some firms are already showing a superior ability to exploit digital technologies to gain a competitive advantage over the market in many industries. Rural Micro, Small and Medium Enterprises (MSMEs) with their obsolete structure, low finance, lack of digital skills and poor technological structures, are unable to change and evolve at the speed required by digital disruption (Imran, Hameed & Haque, 2018). In order to survive, rural SMEs have to rejig their organizational models, learn from digital disruptors and shift their organizational models and mindset (Bharadwaj, Sawy, Pavlou and Venkatraman, 2013). Nigeria is transitioning towards a digital economy and society. Although already underway for nearly two decades, the pace of change has quickened with the further deployment of digital infrastructure, the proliferation of smartphones which allows ubiquitous computing, and the generation of huge volumes of all kinds of data. These developments have turned data into an

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important strategic asset and a must have if a firm must participate in digital economy (Chen, Preston & Swink, 2015).

The digitization of economy is a significant shift from the normal in terms of economic theories and practices. Business models and ways of doing business has also dramatically changed. Business boundaries have been broken, competitions and markets are made global. With this transformation come rare opportunities to improve welfare and address pressing social issues from health care to education to the environment, Shahbaz, Rasi & Ahmad, (2019)

The benefits of digitization have created its own environment with numerous challenges as digital transformation changes the nature and structure of companies and markets, raises concerns around jobs and skills, privacy, security, social and economic interaction, the formation and composition of communities, and notions of equity and inclusion in the present era of industry, Mubarik, Naghavi, & Mubarik, (2019),

Nigeria's digital economy policy, is targeted at mobilizing other sectors and align with the Economic Recovery and Growth Plan (ERGP) of the Federal Government in order to achieve economic growth and diversification. The policy is targeted at having every Nigerian to be connected with the Internet and expressed the goal of digital Nigeria by being computer literate, owning a digital device, having access to the Internet, owning a bank account that can be accessed and operated digitally and online. Above all, digital economy policy of the Federal Government hopes to see majority of the citizens undertake many activities electronically. Nonetheless, researchers have focused on the significant positive effects of digital transformation of businesses, productivity and performance with little or no attention paid to the participation level of MSMEs in rural settings. This paper therefore seeks bring to lime light the challenges resulting from digital economy faced by rural MSMEs in rural areas. While there are so many literatures on MSMEs in relation to digital economy, none to the knowledge of the authors have discussed digital economy participation by MSMEs in Uromi, hence this study closes this gap.

The objectives of this study are

- i. To determine if MSMEs in rural area participate in digital economy
- iii. Clarify the challenges involved in MSMEs participation in digital economy.

The scope of the study is limited to the participation of selected MSMEs within Uromi in digital economy.

Research Questions

- i. To what extent does MSMEs in rural area participate in digital economy?
- ii. what are the challenges faced by MSMEs in participating in digital economy?

Hypothesis

MSMEs in rural area does not participate in digital economy

Literature Review

Concept of digital economy

Digital economy is seen as the convergence of computing and communication technologies in the Internet and the

resulting flow of information and technology that is stimulating all of electronic commerce and vast organizational changes, Lane (1999). In 2010, the Economist Intelligence Unit sees digitization as the quality of a country's ICT infrastructure and the ability of its consumers, businesses and governments to use ICT to their benefit while the British Computer Society (2014) opined that digital economy refers to an economy based on digital technologies, although is increasingly perceive as conducting business through markets based on the internet and the World Wide Web. The digital economy refers to both the digital access of goods and services, and the use of digital technology to help businesses (House of Common, 2016)

The digital economy enables and executes the trade of goods and services through electronic commerce on the Internet. Digital media (Internet, mobile phones and all other means of collecting, storing, analyzing and delivering information), makes it possible to replicate and distribute data in digital form quickly, accurately and efficiently and manage information. In the broadest sense the process of 'digitalization' is usually understood as a socioeconomic transformation initiated by the mass introduction and assimilation of digital technologies, i.e. technologies of creation, processing, exchange and transfer of information. The concept of "digital economy" (DE) has no strict interpretation in the scientific literature. Broadly speaking the term refers to "economic activity which manipulate and use data in digital form. DE are likely to be made with electronic money, or the so-called cryptocurrency, which has a "cloud" value, that is not confirmed by any real assets, on the basis of which money exists in the classical sense. In the DE information technology (IT) can simplify daily tasks, turning them into a simple, inexpensive process that does not require significant human effort. At the same time, the DE contributes to improving the quality of the labor force; increasing innovation, improving the competitiveness of economic entities; increasing revenues and effective demand for goods and services; expanding international economic ties and attracting foreign capital; improving management efficiency through the growth of an integrated information space.

Digitalization of the economy is a new form of ensuring the competitiveness of the economy for a long period of time. It is possible to resist the onslaught of competitors only with its openness because a transparent economy is more stable. The concept of the digitalization research of production is reduced to the following algorithm: to accumulate the knowledge necessary for the successful conduct of the core business (Toffler, 2008). The main task of the DE as a control system is to determine the flow of transfers (exchange), the contractors must make a joint decision on their value. The DE as an electronic control system can not only coordinate the actions of billions of people, but does it so in a way that people in most cases can make smart choices without complicated calculations.

The concept of Micro, Small and Medium Enterprises

The Micro, Small and Medium Enterprises (MSMEs) are recognized globally as the fuel required to drive the engine of socio-economic transformation of any nation. In Nigeria, Small business was defined by the third National development plan (1975-1980) as a firm that is capable of providing employment to not more than ten employees.

(Taiwo, Ayodeji and Yusuf, 2012). However, MSMEs also refer to as a business with a fixed asset and working capital of an amount not exceeding N60, 000 and capable of employing 50 workers.

Moreover, SMEs is a firm with an annual turnover worth N2 million and a net asset of an amount not exceeding N1 million. (Companies and allied matters act 1990, Federal ministry of Industry; Nigeria cited in Taiwo, Ayodeji and Yusuf, 2012).

However, with the introduction of National Policy on MSMEs has addressed the issue of definition in respect to what constitutes micro, small and medium enterprises. The definition receives a grouping focused around double criteria, assets and employment (with the exception of land and buildings):

- ❖ Micro Enterprises are those enterprises whose total assets (excluding land and buildings) are less than Five Million Naira with a workforce not exceeding ten employees.
- ❖ Small Enterprises are those enterprises whose total assets (excluding land and building) are above Five Million Naira but not exceeding Fifty Million Naira with a total workforce of above ten, but not exceeding forty-nine employees.
- ❖ Medium Enterprises are those enterprises with total assets excluding land and building) are above Fifty Million Naira, but not exceeding Five Hundred Million Naira with a total workforce of between 50 and 199 employees

Theoretical Framework

This study adopted the Resource-Based View (RBV) theory. RBV of IT recommends that the IT resources in the firm can be the source of competitive capability of the firm (Nwankpa and Rouman, 2016). It shows that the unique

resources of a firm are human IT skills, IT infrastructure, and IT reconfigurability. Every single IT resource is unique and complex to acquire. The combination of the technological resources creates a firm’s strong organizational capability which leads to superior performance and competitive advantage which gives the firm a unique niche in the global space.

Methodology

This study is adopted descriptive research design. Descriptive study is a study in which the researcher interacts with the participants through interviews or questionnaires to collect the necessary information. The population of the study consist of purposively 60 selected Micro, Small and Medium Enterprises in Uromi. (20 from each group) who are duly registered with Corporate Affairs Commission (CAC) to do business. Both primary and secondary data were used for this study. The primary data were collected by the use of questionnaires while secondary data were collected from internet, Annual reports, journals books, and magazines. The data for this study were obtained through a questionnaires and interviews. The instrument for this study was administered through various medium such as google form, survey monkey and other internet or social media as well as hard copies sent by emails to the respondents. The questionnaires were retrieved within two weeks. Descriptive statistics and statistical charts were used to answer the research questions while correlation and a multiple regression was used to test the sole hypothesis of the study.

Research Questions

- i. To what extent does MSMEs in rural area participate in digital economy?

Item	Very high	High	Low	Very low	F	Mean
I am internet savvy	10	25	5	20	145	2.41
I deployed internet for socialization not business	25	6	9	20	156	2.6
I do business online	7	24	17	12	146	2.43
I own at least one business bank account for online business transaction	3	10	23	24	112	1.87
I have a bank account but I do not for business	29	21	6	4	195	3.25
I have at least one personal computer used for my business	5	14	21	20	124	2.07
I own a smartphone	43	10	3	4	212	3.53
I own a business email	15	15	19	11	154	2.57
Own a business website	2	1	10	47	64	1.07

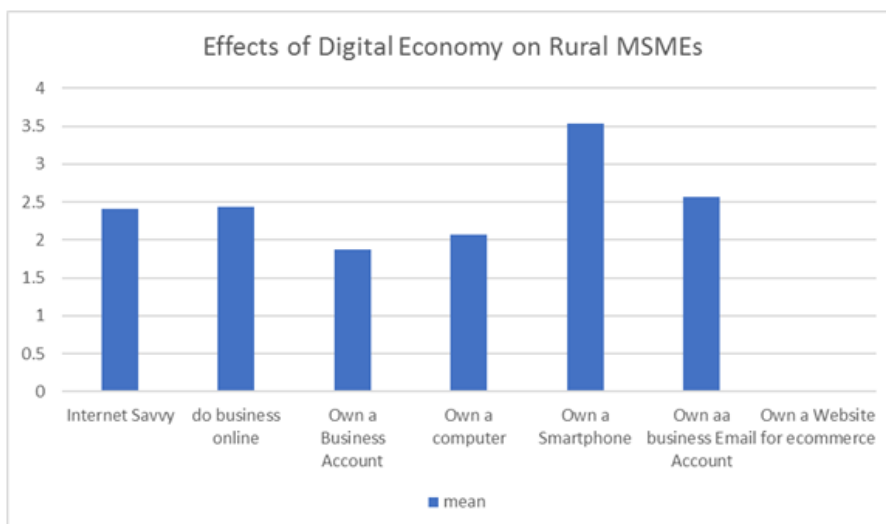
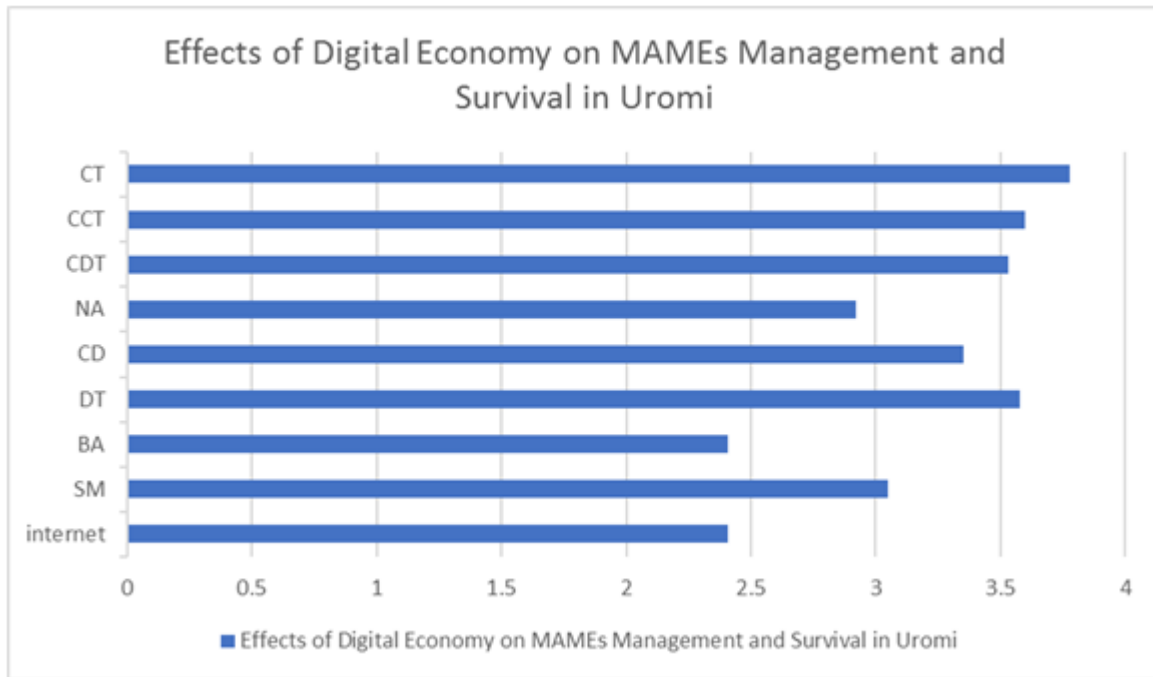


Fig 1: Effects of digital economy on MSMEs

Source: Field Survey, 2021

iii. what are the challenges faced by MSMEs in digital economy?

Item	Very High	High	Low	Very Low	F	Mean
Inability to use the internet (Internet)	10	25	5	20	145	2.41
Use of social media for business (SM)	35	5	4	20	183	3.05
Lack of business account (BA)	8	23	15	14	145	2.41
lack of digital marketing skills (DT)	44	10	3	3	215	3.58
Cost of data (CD)	31	21	6	2	201	3.35
Network availability (NA)	24	16	11	9	175	2.92
Cost of digital tools (CDT)	43	13	1	3	212	3.53
Constantly changing technologies (CCT)	15	15	19	11	216	3.6
Cost of training on digitization (CT)	50	8	1	1	227	3.78



Hypothesis

Digital economy has no significant effect on the management and survival rate of MSMEs in Uromi

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.758 ^a	.585	.572	.38768

a. Predictors: (Constant), Internet, SM, (BA, DT, CD, NA, CDT, CCT and CT

Multiple regression analyses were conducted to examine the relationship between MSMEs management and survival and digital economy, the regression results showed that digital economy had 57% effect on the management and survival of MSMEs in uromi and all digital economy variables (Inability to use the internet (Internet), Use of social media for business (SM), Lack of business account (BA), lack of digital marketing skills (DT), Cost of data (CD), Network availability (NA), Cost of digital tools (CDT), Constantly changing technologies (CCT) and Cost of training on digitization (CT) significantly contributed.

Discussion

This study examined rural MSMEs participation in digital economy and the challenges encountered. The study found

out that MSMEs in rural area participated in digital economy with high mean scores of 3.53 and 2.57, for owing bank account that can be used for online transaction and business email for correspondence. Challenges encountered were nonuse of social media for business, lack of digital marketing skills, high cost of data, poor network availability, high cost of digital tools, constantly changing technologies and high cost of training on digitization with high mean scores of 3.05, 3.58, 3.35, 2.92, 3.53, 3.6 and 3.78 respectively. From the result obtained it can be inferring that MSMEs in rural area participate in digital economy but not with hitches.

Also, the regression result showed a 57% participation which of course need to be encouraged in order to increased participation level. The potential of participations is quite high as internet savvy ability, ownership of personal computer and a smart phone were at appreciable means of 2.41, 2.07 and 3.53 respectively.

Conclusion

Based on the findings of this study, it is concluded that rural MSMEs participate in digital economy and that their basic limitations are lack of digital marketing skills, high cost of data, poor network availability, high cost of digital tools, constantly changing technologies and high cost of training on digitization.

Recommendations

Based on the findings of this study it is recommended that

- i. Data which is the oil that drive digital economy should be subsidize by the government in order to make it affordable for rural MSMEs
- ii. Good networking unfractured should be installed in rural communities to encourage digital economy participation and rural inclusion.
- iii. Free digital training skills should be organized for rural MSMEs owners by the government and Non-Governmental organizations (NGOs) to improve digital proficiency of market players (MSMEs)

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