

# Strategies to Adopt Information Technology in SMEs

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## INTRODUCTION

Small and Medium sized Enterprises (SME) play an important role in economic development of a country. Several theories obscure on connection between information technology, economic development and social change. Almost all agree on the importance of information and communication technology adoption in SME, while the importance of SME as an engine to economic growth is well acknowledged worldwide. Information technology, particularly the Internet is having a significant impact on the operations of SME and it is claimed to be essential for the survival and growth of nation's economies in general and SME in particular. Information Technology (IT) adoption is an important field of study in a number of areas, which include small and medium-sized enterprises (SMEs). Due to the numerous advantages of IT, SMEs are trying to adopt IT applications to support their businesses. IT adoption by SMEs differs from larger organizations because of their specific characteristics, such as resources constraints.

The size and importance of the SME sector varies from country to country. The last few decades have seen an increasing recognition of the role it plays in industrial developing countries. SME sector fulfils its potential role in contributing to a healthy economy.

## SIGNIFICANCE OF SMEs

SMEs tend to dominate a country's new and fast growing industries. Economies which discourage SMEs in any general sense are therefore likely to discourage some newer dynamic industries from putting down the

roots they might otherwise do. In this respect, SMEs are associated with dynamism. The most successful developing country over the last 50 years, Taiwan, is built on a dynamic SME sector. This has produced both (for its time) record breaking growth and a quite low level of inequality, by comparative standards. The significance and potential contribution of the SME sector are supported by both theoretical and empirical arguments and evidence.

- **Collective Bargaining:** Developing countries without substantial SME sectors tend not only to have capital and the income from it concentrated in the larger firms but also to have a "labour elite" in that sector. They are able to bargain for wages much higher than elsewhere in the economy.
- **Decent Employment:** The intermediate technology characteristic gives SME sector a special role in generation of adequate or decent employment. Example of small-scale agriculture, etc.
- **Dynamic Potential:** Many are surviving in character but others have dynamic potential. In most countries for which such data are available it appears that most small firms (of say 6-25 workers) began their lives as microenterprises and then grew.
- **Economic Efficiency:** Possibly those large firms with an SME background are likely to engage in subcontracting with other SMEs, which culminates into an additional benefit to overall economic efficiency.

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- **Employment Generation:** SME sector contributes both to the overall total factor productivity such as efficiency of an economy and to employment generation and distributional equality comes by virtue of its pattern of technology choice.
- **Generating Growth:** The SME sector plays a key dynamic role in generating growth, especially pro-poor growth. Through employment generation, automatically the people and economy also grow.
- **Highly Heterogeneous:** Nearly all developing economies have large micro enterprise sectors that, like the SME sector itself, are highly heterogeneous in many respects like the goods or services produced, the entrepreneurial capacity of the owner, and the potential for growth, etc.
- **Healthy Competition:** Healthy competition is possible through SMEs only because of their price-lowering and quality-improving methodology. Because of this they and their products compete with global market also.
- **Income Equality:** An economy which is dominated by SMEs has been generating a low level of inequality in the distribution of primary income. Best example is Taiwan.
- **Little Capital, More Employment:** A large informal or microenterprise sector uses very little capital with the large amount of labour not employed by the large firms.
- **Very Useful in Dualistic Economy:** A larger SME sector is best thought of as the alternative to a highly dualistic economy with most of the capital in the large scale sector and most of the workers in the very small-scale sector.

## REVIEW OF LITERATURE ON IT IN SMEs

It is claimed that through the use of information technology, SMEs can gain from developing capabilities for managing, information intensive resources, enjoy reduced transaction costs, develop capacity for information gathering and dissemination of international scale and gain access to rapid flow of information (Minton, 2003).

Engel et al. (2004) and Coad and Rao (2008) have clearly focused on inquiring the relationship between information technology adoption and growth in the context of SMEs of craft dominated industries in Germany and high tech sectors in the USA, respectively. The estimation results, based on a probity model, emphasized a positive impact of information technology output on the sales turnover change of SMEs (Engel et al., 2004). The strongest barriers faced by SMEs when engaging in implementing information technology were long perceived to be lack of finance and access to markets (Lester & Terry, 2008).

Much of the research also shows that the decision for ICT adoption in SMEs are more likely made by the owner [Doukidis & Matlay], which often have little concern towards the importance of ICT strategy and planning within their business [Beckett]. Developed countries have tested many arrangements and instruments to enhance the access of SMEs to finance. Some approaches worked well while the others have failed.

Lucey (2005) pointed out that there is some evidence that technology has a significant effect on the structure of organisation. Similarly, Wilkinson (1982) stated that computer definitely affect organisational structure and managerial decision making and allow firms more flexibility in the choice of feasible organisational structure.

## BACKGROUND OF THE STUDY

The way Business, Market and Finance need to be managed have changed dramatically in post Liberalization. It made SMEs some vanish, some succeed and some carry on dragging the entire burden through their life-time, feeling over-worked and unrewarded. So, in this LPG era SMEs need to understand business in a 'holistic manner' and necessarily adopt an 'outside in' approach as against the 'inside out' approach. In Globalized scenario business environment has become highly competitive, complex and uncertain. In this situation, SMEs need to "re-act, re-think and re-engineer" the complete process of doing business. There is a need of managing a business is both a Science and an Art at the same time. Not only that there is a necessity to supplement SMEs limited resources, particularly in Management and Functional expertise.

With industrialization and globalization howsoever competent the entrepreneur and excellent the Products/Services, there is going to be competition from

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