

# Chapter X

## E-Government and SMEs

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### INTRODUCTION

This chapter looks at a particular focus of e-government, that of support for business in general and SMEs (small and medium-sized enterprises) in particular. While this is only one segment of PIT (public information technology), it is an important one. Figure 1 illustrates this, showing overlap between the three areas of government, citizens, and businesses (note the diagram is not to scale).

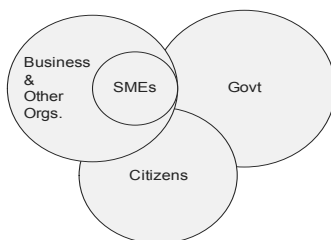
The chapter starts with an overview of the importance of SMEs to regional and national economies, showing why governments encourage their start-up, survival and growth. Following this, an overview of e-G2B (e-government to business) initiatives around the world is provided, with par-

ticular attention directed to the SME perspective. The chapter closes with consideration of future trends, conclusions, references, and keyword definitions.

### BACKGROUND

Small and medium-sized enterprises (SMEs) are important to national economies, and hence to the world economy. SMEs provide employment, create new jobs, and contribute to a country's GDP (gross domestic product). Some (a very small but important proportion) develop into the large businesses of the future (Microsoft and Apple are technology examples) while other successful ones are purchased outright by larger firms. The size definition of what constitutes a micro, small, or medium-sized business varies from country to country, and even between government departments and programs within a particular country. Countries with larger economies have higher revenue and employee thresholds for segmenting large firms from small and medium, while countries with smaller economies have lower ones. A common segmentation approach uses number of employees—micro (or very small) businesses having less than five employees, small businesses

*Figure 1. E-government areas of focus*



having 100 or fewer, and medium-sized firms having 101-500. A variation on this (used by the European Union) has the upper employee limit set at 250. Another segmentation method uses sales, and is based on the type of firm (manufacturing, wholesale, retail, service, and so forth). Often a combination of employee numbers, revenue size, and independent ownership is used in defining an SME. It is important to note that different countries use different definitions, and these definitions can vary significantly (e.g., in many developing countries a firm with 250 employees is a 'large firm').

In Canada, small firms (those with fewer than 100 employees) make up 97 percent of goods-producing employer businesses and 98 percent of all service-producing employer businesses<sup>1</sup>. For the United States, small firms represent 99.7 percent of all employer firms, employ half of all private sector employees, pay 45 percent of total U.S. private payroll, have generated 60 to 80 percent of net new jobs annually over the last decade, and create more than 50 percent of non-farm private GDP<sup>2</sup>. In Australia, some 95 percent of businesses are SMEs<sup>3</sup>. Within the UK, there are more than four million small and medium-sized businesses (defined as less than 49 and 250 employees respectively). SMEs there employ some 58.5 percent of the private sector workforce (or more than 12 million people), and contribute more than 51 per cent of the national GDP<sup>4</sup>. Within the entire 25-member European Union (EU) there are some 23 million SMEs, representing 99 percent of all EU companies, and employing around 75 million people<sup>5</sup>. The new EU SME definition considers staff, revenue, and balance sheet size; micro enterprises have fewer than 10 employees, small enterprises fewer than 50, and medium-sized fewer than 250<sup>6</sup>.

Typical advantages attributed to SMEs include being able to service small markets, having a quick reaction time to changes in market conditions, innovativeness, and closeness to their customers. On the negative side, SMEs usually are 'resource poor' (in terms of finances, time and expertise), and generally lag in integration into the new e-economy. Of course, there is tremendous diversity

among SMEs. They cover all industry segments, from manufacturing to service to trade, and from traditional style firms to modern knowledge-based ones. Profitability varies significantly between types of SMEs and among businesses within the same or different industry segments. In particular, a small business is not simply a scaled down version of a large business and the owner/operator typically has much more at personal risk than managers in larger firms.

The literature addresses the reluctance of many SMEs to integrate into the new e-economy (Al-Qirim & Corbitt, 2004; Canadian e-Business Initiative, 2004; Fisher & Craig, 2005). Moreau, Raymond and Vermot-Desroches (2005) point out that with the advent of global competition and new organization forms based on networks of cooperating firms, the successful assimilation of e-business is bound to take on added importance for many SMEs in terms of survival, growth, and competitiveness. Levenburg (2005) is one of the few empirical researchers to consider size (micro, small, and medium) within the SME segment and its impact on IT adoption. She found increasing e-business technology use as firm size increased. So, just as SMEs tend to lag larger firms in e-business uptake, so micro and small firms tend to lag their small and medium-sized counterparts.

Governments are naturally concerned that these SME 'economic engines' continue to function well. Despite reticence on the part of some SMEs, the Internet has proven to be a helpful tool for many, and governments have done much to encourage SMEs in this area. Various ICTs (information and communications technologies) and e-commerce initiatives have been undertaken at national and regional levels in many countries (see Corbitt & Al-Qirim, 2004 for examples).

## **E-GOVERNMENT AND SMEs**

There are many definitions of e-government and its scope (Asia Oceania Electronic Marketplace Association, 2006). The World Bank states "e-government refers to the use by government agencies of information technologies (such as wide area

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