

# Chapter VII

## E-Commerce Innovation in SMEs: A Motivation-Ability Perspective

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### ABSTRACT

*Small- and medium-size enterprises (SMEs) innovativeness to use e-commerce has received significant research attention. This chapter continues with this tradition and offers a theoretically grounded and deeper insight into the e-commerce innovation process in SMEs. This is achieved by proposing a motivation ability-based four-state developmental framework. Each of the four states is then described in terms of organisational readiness, organisational capability, e-commerce capability, e-commerce motivational factors, and commodity chain position. SME managers can use the framework as a decision making tool to critically stock-take their innate state and to set realistic goals and expectations with regards to future e-commerce investments. The utility of the framework is demonstrated through case studies of 14 small-scale enterprises located in the Indian state of Karnataka. The result suggests that rather than static models of e-commerce adoption, temporal models that are dynamic in nature and that recognise e-commerce as an ongoing innovation process have more explanatory power to understand innovation in SMEs in such an environment.*

### INTRODUCTION

Small- and medium-size enterprises (SMEs) typically represent a significant proportion of any

nation's economy in terms of their contribution to employment and gross domestic production. Governments and policy-makers throughout the world recognise these pivotal roles of SMEs and

have been keen to identify strategies to boost their growth and competitiveness. One such strategy has been the promotion of innovative use of information and communications technologies (ICTs) in general and e-commerce in particular. The result of these policies plus entrepreneurial actions has been mixed. On the one hand, there are growing rates of e-commerce adoption among small businesses worldwide. On the other hand, the majority of such firms (especially those in the non-ICT sectors in transitional and developing economies) have yet to adopt e-commerce or have not moved beyond entry-level adoption (Molla, Heeks, & Balcels, 2006).

SMEs' innovativeness to use e-commerce has received significant research attention. Some work has focused on general categorisation of e-commerce in small enterprise (Chen, Haney, Pandzik, Spigarelli, & Jesseman, 2003). Others sought to understand the potential benefits of e-commerce to these firms' efficiency and competitiveness (Ibbotson & Fahy, 2004). The limited nature, or variability, of e-commerce adoption in SMEs has also been investigated through research studying factors that facilitate or inhibit adoption.

These works have made valuable contributions to our understanding of e-commerce innovation in SMEs but we perceived some limitations of past research that motivated our own work. These include (1) the tendency to "black box" the process of e-commerce innovation using a dichotomous scale that only differentiates e-commerce adopters (or those with an intention to adopt) from non-adopters, (2) lack of attention to what SMEs seek to achieve out of e-commerce innovation (3) the inherent assumption that the efficiency and competitiveness rationale drives e-commerce in SMEs, and (4) the focus on "factor-shopping" with little recourse to conceptual and theoretical models. This chapter, therefore, intends to address some of the above gaps and offer a theoretically grounded and deeper insight into the e-commerce innovation process in SMEs.

The aim is to advance the understanding of e-commerce in SMEs by using the motivation-ability theory. Using the theoretical lens of the motivation-ability theory, we propose a framework to understand e-commerce in SMEs. To demonstrate the utility of the framework, the paper uses evidence drawn from case studies of small-scale industries (SSIs) in traditional manufacturing sub-sectors in the State of Karnataka in India.

The remaining part of the chapter is organised in five sections. Section two provides the theoretical background, which is followed by the main thrust of the chapter in section three covering our four state developmental framework, its verification process and main findings. The last two sections discuss some of the themes and trends that emerged from the study and outline preliminary conclusions respectively.

## **THEORETICAL BACKGROUND**

### **Understanding E-Commerce as an Innovation**

Wigand (1997) identified innovation theory as one of the theoretical approaches through which one may view e-commerce. Innovation can be defined as ideas or objects that are new or are perceived as new (Rogers, 1995). Inevitably, different researchers promote different connotations of innovation. One of the differences emanates from the perturbations caused by the concept of newness vis-à-vis what was before or the precursor. Some reserve the concept of innovation for something that is radically different from its precursor (Davenport, 1993; Greve and Taylor, 2000). Others submit as innovation even if what is "new" is incrementally different from the precursor (Coopey, Keegan, & Emler, 1998; Straub, 1997). Overall though, it can be surmised that the newness in the innovation should be treated with respect to the context (organizational, social

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