



## **Chapter IV**

# **Criteria for the Adoption of E-Commerce: Why Do SMEs Decide to Implement E-Commerce?**

Most commentators, and indeed substantial research efforts, have focused on four connected but different areas of e-commerce adoption. These are the reasons for adoption (criteria), the reasons for non-adoption (barriers), the positive outcomes of adoption (benefits), and the negative aspects of adoption (disadvantages). The next four chapters will be devoted to these four areas of e-commerce adoption. Each chapter will provide a detailed analysis of a particular area in each of the three different locations. This will be followed by a comparison of the results to highlight any similarities and differences. It should be noted this book presents the outcomes of an empirical study and, subsequently, it provides statistical analyses on the data collected. While the academic reader will find these of particular interest, the business reader is directed to the business implications sections and the conclusion and may use the tables with statistical results as a reference point.

We will begin with the reasons or drivers leading to e-commerce adoption. We have termed these “e-commerce adoption criteria.”

## Background

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In its earliest inception, e-commerce was seen as a “pot of gold” for SMEs trying to compete with their larger counterparts on a worldwide stage. E-commerce potentially gave SMEs a cost effective way of reaching customers globally and thus competing on par with large organisations. Indeed, many governments recognised this potential and created funding schemes and initiatives to facilitate e-commerce adoption by smaller firms.

As with previous technologies, the SME sector, as a whole, was slow to adopt e-commerce (Magnusson, 2001; Poon & Swatman, 1997; Van Akkeren & Cavaye, 1999). According to the National Research Council (2000), only 25% of SMEs had a Web site in mid-1999. Of those that did have a Web site, the revenue they generated via business-to-customer (B2C) e-commerce was negligible (Wall Street Journal, August 17, 1999 *cited in* National Research Council, 2000; Ruth, 2000). Similar findings were reported in Australia with only 22% of SMEs using the Internet for e-commerce (Telstra, 1999).

The results of the latest Sensis® e-Business Report (2006) show increases in the use of e-commerce in Australia. With 90% of SMEs having Internet connectivity and 48% having a Web site, 47% are taking orders online. This growth reflects an increase in the confidence of SMEs with regards to e-commerce benefits. The large number of adopters (57%), which had already recovered their e-commerce investment, is a clear indicator of this. It should be noted, however, that almost 40% of the SMEs surveyed reported that they would not use e-commerce at all. (The reasons for this are explored in subsequent chapters.)

An early study (MacGregor & Bunker, 1996) showed that the major driving force for most SMEs adopting e-commerce was pressure by larger trading partners or suppliers to do so. Since then there have been many studies investigating the criteria or driving forces that have led SMEs to adopt e-commerce. These studies (see for example, Eid, 2005; Power & Sohal, 2002; PriceWaterhouseCoopers, 1999; Reimenschneider & Mykytyn, 2000) have found that pressure from customers was also an important adoption criterion. Raisch (2001) also cites pressure from competitors as the reason behind SMEs’ decision to implement e-commerce. The increasing levels of competition have driven SMEs to seek competitive advantages through innovative technology. Clearly, in the early days of e-commerce, SMEs were reluctant adopters “pushed” into e-commerce adoption by external pressures from suppliers, customers, business partners, and competitors. This is understandable considering the lack of resources available to SMEs. The dilemma faced by most SMEs was whether the benefits of e-commerce outweighed the costs associated with adopting an e-commerce strategy and implementing the technology.

In one of the first studies of e-commerce adoption drivers, with a sample size consisting of 146 SMEs, Poon et al. (1997) derived a list of five drivers or criteria for e-commerce adoption based on data collected from the respondents. These include new modes of direct or indirect marketing, strengthening of relationships with business partners, the ability to reach new customers, improvements to customer services and the reduction of communication costs. Other studies have derived similar criteria. Poon et al.’s (1997) study highlighted the business benefits of e-commerce, which SMEs were considering in their decision to

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