

# Chapter 11

## An Investigation into the Factors Affecting E-Commerce Adoption Decisions by SMEs: A Study in Saudi Arabia

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### ABSTRACT

*Electronic commerce (e-commerce) has become an increasingly important initiative among Small and Medium Enterprises (SMEs) as both a great opportunity and as a source of competition. The factors affecting adoption decisions of e-commerce by SMEs have been well documented, but there is a paucity of empirical studies that examine the adoption of e-commerce in the Arab world. The aim of this chapter is to provide insights into the salient e-commerce adoption issues by focusing on Saudi Arabian businesses. This chapter investigates the state of e-commerce adoption and analyses the factors that determine the extent to which SMEs in Saudi Arabia are inclined towards deploying e-commerce technologies. This research was designed using a qualitative approach through exploratory case studies selected from firms in Saudi Arabia. The findings contribute towards a better conceptual and practical understanding of the main factors driving SMEs to adopt e-commerce. The study has found that the level of e-commerce implementation has yet to mature and customer readiness for Internet shopping has to improve before e-commerce reaches the levels of maturity seen in other regions of the world. This study highlights several directions for future inquiry and implications for policymakers and managers who are involved in efforts to introduce complex innovations such as e-commerce into their organisations or are interested in expanding their e-commerce applications and generating more revenue.*

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## INTRODUCTION

Business-to-business (B2B) e-commerce has enabled many organisations to share information, cooperate with business partners and collaborate across geographical boundaries. In fact, electronic commerce offers unique opportunities to both developing and developed countries. In the short term, the gains are likely to be concentrated in developed countries but, in the long term, developing countries have more to benefit (Terzi, 2011).

Today e-commerce plays a major role in the world's economy and Small and Medium Enterprises (SMEs) are increasingly realising the potential benefits of e-commerce technologies as they continue to adopt e-commerce to create and sustain competitive advantages. In fact, SME definitions vary from country to country (MacGregor & Vrazalic, 2004). For example, North American industry uses measures such as number of employees and total turnover. On the other hand, the European Union (EU) has proposed a uniform definition that views SMEs as independent companies with fewer than 250 employees and with turnover of less than 50 million Euros (European Commission, 2005). In the case of Saudi Arabia, small enterprises are those which employ between 10 and 25 workers and operate with capital ranging between 200,000 SR and 1 million SR<sup>1</sup>. In contrast medium-sized enterprises employ between 26 and 100 workers with operating capital ranging between 1 million SR and 5 million SR (Radwan, 2002). SMEs are important contributors to national economies and play a critical role in creating employment opportunities. For instance, in the USA, small businesses generate two-thirds of new jobs and produce 39% of the gross national product (GNP).

A number of studies have been conducted in the context of developed countries to explore the factors that influence and hinder the decision to adopt e-commerce by SMEs (Grandon & Pearson, 2004; Love et al., 2001). However, e-commerce adoption in developing countries is more complex

due to challenges such as insufficient regulatory environments, high prices of Internet service providers (ISPs), and poor infrastructure; and so there is a particular need to study less developed countries (Molla & Licker, 2005b; Xu et al., 2004). In addition, Ein-Dor et al. (2004) conducted a four-country study that included Finland, Israel, New Zealand, and Singapore. Their study indicates that differences in culture, attitude towards ICT, and socioeconomic status impact the adoption of e-commerce. In fact, studies conducted in Western countries tend to embody values, attitudes, and beliefs of the West, which are different from those of non-Western cultures. Levinson (2004) reported that cultural issues such as language and limited tradition of entrepreneurship and innovation may act as barriers to Internet and e-commerce adoption in developing countries. It is broadly believed that, direct users of new ICT usually require literacy and, often knowledge of the English language.

In his comparison of the organisational cultures of 40 independent nations, Hofstede (1980) argues that many of the differences in management styles and organisational practices of companies throughout the world can be related to differences in the collective mental programming of people in different national cultures. Yet it seems that there is a paucity of writings in the context of developing economies in the Arab world and the patterns of organisational adoption of e-commerce remain a largely unexplored area (Parker & Castleman, 2006; Bowers, 2000).

Rose and Straub (1998) in their research of eight countries of the Arab world predict the general use of information technology; they found that it is still unexploited in comparison to the developed countries of the USA and Europe. The situation has not changed much since their study, as the same problem was reported by Yasin and Yavas (2006) who confirmed that information about e-commerce in the context of Arab regions is scarce and the literature overlooked this area. In addition, surveys suggest that in many Arab countries, merchants are mainly unaware

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