Chapter 5.9
The Value of Information Systems to Small and Medium–Sized Enterprises:
Information and Communications Technologies as Signal and Symbol of Legitimacy and Competitiveness

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ABSTRACT

Small and medium-sized enterprises (SMEs) face more serious challenges to their survival than do larger firms. To succeed, SMEs must establish and maintain credibility in the marketplace to attract the resources required for survival. Most co-opt legitimacy by mimicking the cues that signal credibility to convince potential stakeholders that something stands behind their promises. This research examines the role of information and communications technology (ICT) in legitimacy-building from the perspective of both SME founders and customers. In-depth, semi-structured interviews were conducted in a variety of industries to determine whether the ICT-related legitimacy schema from the customers' perspective differs substantially from that of firm founders. Results indicate that customers compare the ICT information provided in SME's sales pitches to pre-existing ICT expectations about the nature of desirable sales transactions.

We describe the relationship between violations of ICT expectations, legitimacy, and purchase decisions. Implications for theory and practice are discussed.

INTRODUCTION

All firms want to survive and thrive. As new information and communication technologies (ICTs) are developed, attempts to understand their adoption and use by small and medium-sized enterprises (SMEs) have determined that many of the resources developed for larger firms to guide strategic IS planning, alignment and the evaluation of ICT investments are often inappropriate for SMEs (Wainwright, Green, Mitchell, & Yarrow, 2005) and have identified barriers to adoption including negative attitudes and financial and knowledge constraints (Parker & Castleman, 2007). Underlying this research is an emphasis on the role of ICT in deriving business value for SMEs by efficiently managing internal operations and supply chain activities to improve productivity and profitability (Levy & Powell, 2005).

Although SME success is related to internal operational efficiency and effectiveness, it also requires access to external resources such as labor, financing, and most importantly, a steady stream of income from sales (Harrison, Dibben, & Mason, 1997). For SMEs, most sales are made to other businesses (Levy & Powell, 2005) and success depends on the firm persuading potential customers to actually make purchases, a decision that hinges on perceptions of the firm's legitimacy (Suchman, 1995; Zimmerman & Zeitz, 2002). Legitimacy is especially important for new firm survival (most begin as SMEs) because smaller and newer firms fail at a higher rate which suggests that obtaining access to resources may be more difficult (Singh, Tucker & Meinhard, 1991). However, previous research on ICT use by SMEs has not considered its role in perceptions of legitimacy and purchase decisions.

New venture lore is replete with anecdotes relating how founders deliberately manage perceptions of legitimacy (e.g., Darwell, Sahlman & Roberts, 1998). In most cases, firms co-opted legitimacy (Starr & MacMillan, 1990) by garnering endorsements and associations and by mimicking the standards, practices, and cues of their relevant industries. This article investigates whether these standards include expectations regarding the use of ICT and whether ICT acts as a signal and symbolic of legitimacy among potential customers.

This approach extends the literature on SMEs and IS in an important way. The IS field has long recognized the symbolic meaning of ICT and its use as a signal by various stakeholders (Feldman & March, 1981; Kling & Iacono, 1988). Research on the computerization of work has explored what ICT symbolizes to employees, shareholders and developers or special interest groups (e.g. Jackson, Poole & Kuhn, 2002; Prasad, 1993; Ranganathan & Brown, 2006; Swanson & Ramiller, 1997). Missing from this research is a systematic exploration of the link between an SME's ICT, the customers' image of the firm, and the likelihood of purchase, a central concern for managers and researchers.

This work also extends the organizational theory literature in two important ways. First, it focuses on establishing legitimacy whereas the existing literature focuses on its maintenance and repair (Suchman, 1995). Secondly, we examine both how SMEs convey impressions and what potential customers expect to hear whereas the existing literature usually examines only one or the other (e.g., Arnold, Handelman & Tigert, 1996; Harrison et al., 1997).

If potential customers form impressions of an SME based on its use of ICT and these impressions are positively related to purchase behavior, managers who want to attract and retain customers may want to consider adopting ICT as a signal, not just for its productivity-related business value. If these impressions are negatively

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