

# Chapter 3

## E–Crime and Non–Compliance with Government Regulations on E–Commerce:

### Barriers to E–Commerce Optimization in South African SMEs

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#### ABSTRACT

*E-commerce is critical to national development. Small and Medium sized organizations (SMEs) are encouraged to adopt it to address poverty, improve competitiveness and productivity. However, the escalation in electronic crime (e-crime) and lack of compliance with e-commerce regulations threaten e-commerce success in South Africa. While many strategies for improving e-commerce have been suggested, the focus has mainly been on economic and technological factors and less on human and social aspects such as compliance behaviors. This has resulted in the development of e-commerce systems that do not incorporate regulatory requirements. Consequently, the level of exposure to cyber-risks and legal liabilities has increased and SME market competitiveness compromised (Kyobe, 2009). This chapter examines the factors influencing compliance with e-commerce regulations and e-security requirements and how these impact on e-commerce optimization in South African SMEs. It also provides some useful frameworks and checklists SME managers can use to evaluate their compliance behaviors and security practices in order to make improvement to their e-commerce activities.*

#### INTRODUCTION

E-commerce plays a key role in the development of nations. Many Small and Medium sized organizations (SMEs) are encouraged by governments and economist to adopt it in order to address pov-

erty, improve market competitiveness and increase productivity. In terms of South Africa's National Small Business Act 102 of 1996 (amended 2003), Small, Micro and Medium Enterprises (SMMEs) are organizations with less or equal to 200 full-time equivalent of paid employees (The Presidency, 2003).

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While e-commerce can provide such benefits, the escalating rate of electronic crime (e-crime) Upfold and Sewry (2005) and lack of compliance with government regulations on e-commerce have resulted in high levels of insecurity and lack of trust in digital transactions. These problems present major barriers to e-commerce optimization in many SMEs today (Sengupta, Mazumdar & Barik, 2005; Seldon, 2004; Sunday Times, 2002). “E-crime” is defined here as the offences where a computer or other Information Technologies are used as a tool to commit an offence and “Compliance” as the state of being in accordance with established rules, guidelines or regulations.

Strategies for enhancing e-commerce effectiveness have traditionally been dominated by economic (e.g. cost reduction, revenue increase and pricing) and technological considerations (e.g. visibility, functionality, web design, etc). Social and human aspects of ecommerce have received limited attention (Keen et al., 2004; Meziane & Kasiran, 2008). In the SME field, for instance, there have been limited scientific studies into compliance behaviors and security attitudes of business managers and how these affect e-commerce utilization. Effort to improve e-commerce has often been frustrated by lack of regulatory compliance and poor security. This leads to system implementations that do not incorporate regulatory requirements, increased cyber-attacks on organizations and their business partners, increased liabilities and compromised market positions (Kyobe, 2009).

Understanding the factors that influence compliance with e-commerce regulations and e-security (defined here as the process of ensuring the confidentiality, integrity, and availability of electronic information and protecting it against malicious attacks), is crucial to ensuring effective utilization of e-commerce in SMEs. Research conducted in the field of entrepreneurship confirms that personal characteristics or behaviors of managers moderate the process of e-commerce

adoption and utilization (Wejnert, 2002). In their study of SME regulatory compliance in South Africa, SBP (2003) also maintains that factors influencing compliance with regulations must be understood clearly if effective solutions to SME challenges are to be provided

The objectives of this chapter is to create better understanding of the factors influencing compliance with e-commerce regulations and e-security and show how these have impacted on e-commerce optimization in South African SMEs. It also aims to provide frameworks and checklists SME managers can use to evaluate their compliance and security behaviors; identify the impediments to e-commerce; and make appropriate improvements to e-commerce activities.

The chapter begins with a brief introduction to e-commerce in South Africa (SA). This is followed by a review of e-commerce related regulations and reported incidents of non-compliance with these regulations in SA. Theories explaining why organizations and individuals fail to comply with regulations and good practices are presented, and the importance of identifying and evaluating compliance and security impediments in SMEs shown. Two evaluation frameworks and checklists SME managers can use to determine their compliance and security behaviors are then presented. Finally, results of studies conducted to validate these frameworks are discussed and useful recommendations made at the end of this chapter.

## **BACKGROUND: E-COMMERCE IN SOUTH AFRICA**

Internet based connections began in late 80’s in South Africa (Zantsi & Eloff, 2003). The country is still lagging the world in internet usage with 9.02 percent of the population having internet access (Jourbert & Van Belle, 2004). On-line retail in South Africa however grew by 20 percent in 2005, down from 25 percent in 2004 (Ibbs, 2007). Total

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