

# Chapter 1

## SMEs and E-Business: Implementation, Strategies and Policy

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### ABSTRACT

*The adoption of E-Business by SMEs is a critical issue for economic development. More than 90% of world companies are SMEs and E-Business is widely recognized as a critical source of competitive advantage. Thus, it is important to understand why SMEs are lagging behind large firms in terms of E-Business adoption and assimilation. This chapter will attempt to search for explanations through a comprehensive analysis of main topics in terms of E-Business implementation, strategies and policy. It is believed that the inadequacy of existing E-Business adoption incentives and theoretical models may be due to SME specificity, as these companies are conditioned among other by resource availability and high CEOs/owners' dependency. Empirical evidence shows that SMEs have erratic behaviors in terms of Information and Communications Technology (ICT) investment and need external support to integrate E-Business in the overall strategy of the firm.*

### INTRODUCTION

The ICT capacity to create competitive advantage for firms is now more relevant than ever. In the early days of the Internet, ICT was seen as the key to change consumption behavior and gain competitive advantage, and several firms decided to adopt a high commitment to online technologies. Despite the failure of many, as they just assumed

that ICT alone was enough to drive business, there were some that managed to capture solid first-mover advantages. The insertion of ICT was very important to make internal procedures more efficient and to improve communications with all stakeholders. Today, firms that managed to implement ICT in an appropriate manner are among the high performers of the 2008/09 financial crisis.

SMEs can also benefit from E-Business adoption, but they seem to lag behind large firms due to very specific reasons. SMEs have a high level of

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flexibility to adapt to a fast changing environment and can use the Internet to advertise and sell in global markets. However, SMEs have low rates of ICT adoption and mainly ICT assimilation. In most cases, they are still at the initial stage of E-Business adoption with a stand alone website used for marketing purposes, an email address to answer questions and for most transactions, they still use phone and fax. Despite the infinite range of potential combinations and benefits, it seems that SMEs have difficulties in recognizing added value from ICT.

In this context, the chapter focuses on E-Business adoption by SMEs. It is important to understand why assimilation rates are low and why public policies are not working. Emphasis will be given to the specificity of SMEs and to their strategic options in terms of E-Business adoption. SMEs, due to their size and organizational structure and culture, may face different challenges from those affecting large companies. If this is the case, then new solutions should be found, both in the private and public sector.

This chapter attempts to provide a comprehensive and analytical view of all issues relating to the relationship between SMEs and E-Business. The view adopted will go beyond mere description and will focus on discussing existing theory, models and practices, while searching for new insights. The objectives of this chapter are fourfold: characterize E-Business adoption by SMEs, assess the factors that condition E-Business adoption and assimilation, discuss the main strategic issues faced by SMEs and review existing governmental policies.

## **BACKGROUND**

An accurate overview of the importance of E-Business for SMEs must start from a clear understanding of these two realities. Even though the concepts of E-Business and SMEs are used intensively in academia and business, there is

still discordance about their true meaning and economic relevance. In most manuscripts, these terms are used interchangeably and choices are determined by national statistics, specific research goals and data collection limitations. This diversity can be a source of misunderstanding in a chapter that attempts to compare different authors, studies and national realities. Consequently, in order to have an objective approach to this topic, two types of explanations are required. First, it is important to understand the relevance of SMEs and E-Business in today's world and how they can relate to each other. Second, it is useful to know their true meaning and define the particular concepts that are going to be used during the chapter.

## **SMEs**

SMEs are a significant component of any national economy and therefore it is important to understand how their competitiveness can be enhanced through innovation, namely E-Business technologies. According to Schmiemann (2008), SMEs represent 99,8% of 20 million EU-27 firms, accounting for 67% of non-financial jobs and 57,6% of non-financial added value. Their role in terms of economic development and social sustainability is crucial for most countries. Consequently, governments are aware that improvements in terms of SME competitiveness can bring substantial benefits to national economies and attempt to influence innovation adoption rates. At this level, the widespread adoption of E-Business technologies by firms is among the top priorities of governments.

Despite their economic relevance, there is no universal definition of SME that is widely acknowledged (Mutula and Brakel, 2006). Definitions vary significantly by country or economic area and they may include several criteria (MacGregor and Vrazalic, 2008): financial measurements (assets and turnover), non-financial measurements (staff levels and other) and qualitative components. Among the enormous disparity

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