

Chapter 2

Readiness to Adopt E-Business Among SMEs in Malaysia: Antecedents and Consequence

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ABSTRACT

The adoption of the Internet as a business strategy tool is becoming an important way for firms to expand their business through innovative strategies. This study provides an insight concerning the factors that influence the adoption of the Internet to support business activities, also known as e-business among SMEs in Malaysia. In addition, the study also examines the relationship between e-business adoption and the business performance of the SMEs. Using a structured survey questionnaire, a usable response was received and statistically analyzed from 177 SMEs that currently use e-business. The research found that organizational characteristics, technology characteristics and environmental characteristics influence e-business adoption and that the adoption of e-business has a direct influence on the business performance of the SMEs. The findings of this study can aid and encourage the SMEs in developing countries to build a competitive advantage by using the Internet in their business strategy practices.

INTRODUCTION

Today, the emergence of the Internet has widely opened up the potential of enhancing the business operation among small and medium-sized enterprises (SMEs). For a growing business, the advances in the connectivity via the Internet are vital, as they enable an improvement in the

efficiency of the business by lowering costs, increasing productivity, accomplishing business goals faster, responding to customer needs and communicating with other businesses (Beheshti & Salehi-Sangari, 2006). Electronic business (e-business), as an important strategic tool, has attracted much interest among the SMEs, as it expands the firm's market, enables a new business

model and embraces globalization (UNCTAD, 2003). Although research has been done on e-business, the majority of the research specifies the determinants of e-business adoption among non-adopters and only a limited number of empirical studies have investigated how SMEs that are currently using e-business perceive e-business and the implications of adopting e-business for their business. SMEs are also found to be different from larger companies in the context of IT adoption since SMEs have fewer resources compared to larger organizations. Therefore, SMEs have to incur higher risks when it comes to adopting information technology such as e-business (Choong, Ooi, Lin, & Tang, 2009). Furthermore, SMEs are relatively concerned about the perceived benefits of having e-business since the benefits gained are inconsistent with the extent of e-business usage (Mohamad & Ismail, 2009). Thus, the potential of e-business to improve the business performance of SMEs needs to be studied.

Moreover, this kind of study is very important for SMEs in developing countries where they are struggling to achieve competitive advantage by developing an effective strategy with the support of the Internet (UNCTAD, 2001, 2003). This study suggests the need for advancing the understanding of the key factors experienced concerning the adoption of e-business in a developing country. SMEs represent the largest proportion of established businesses in most of the developing countries. One noteworthy developing country to study is Malaysia, as with other developing countries, the SMEs in Malaysia represent the largest percentage of establishments in Malaysia at 99.2 percent. In terms of their economic contribution, SMEs contribute 32 percent to the gross domestic product, 56.4 percent to the total workforce and 19 percent to the total exports of the country (SMIDEC, 2008). The Malaysian government has embarked on a major push to persuade SMEs to adopt the Internet as to embrace business potential and to enhance nature of doing business. Therefore, various regulatory

infrastructure initiatives and funding facilities were introduced to encourage the adoption and implementation of the Internet, especially as e-business application tools among SMEs (Hashim, 2007). However, the SMEs in Malaysia are still slow in incorporating some form of e-business application into their business operations (Zakaria & Hashim, 2003; Alam & Ahsan, 2007). Having a clear understanding of the factors that influence e-business adoption among the SMEs who are currently using the Internet in their business, and the effect of adopting e-business on the business performance of SMEs in one developing country like Malaysia, will assist SMEs in other developing countries to advance into e-business adoption to support business applications. Thus, this research aims to investigate the factors that may contribute to the adoption of e-business and its implications for business performance among the SMEs in Malaysia.

LITERATURE REVIEW

Electronic Business, commonly referred to as “e-Business” or “eBusiness”, is defined as the utilization of information and communication technology to support all business activities. According to Kalakota and Robinson (1997), e-business is not just about e-commerce transactions or about buying or selling over the web but is defined as the overall strategy of redefining the old business model, with the aid of technology, to maximize customer values and profits. This article adopted the definition of Xu, Rohatgi, and Duan’s (2007), which referred to e-business as the incorporation of Internet technology throughout the entire one’s operation and management.

The Internet has been classified as a major factor in attaining competitive advantage, especially at the strategic level (Porter, 2001). This is because extensive usage of the Internet can provide opportunities for an organization to improve its business processes, monitoring, evaluation and

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