



## **Chapter III**

# **Small Businesses as Social Formations: Diverse Rationalities in the Context of e-Business Adoption**

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## **Abstract**

*Small-business adoption of electronic business has been analyzed largely in conventional business terms such as benefits and costs, returns on investment, and competitive advantage. While these factors are important, small businesses are also embedded in social contexts which shape the rationalities with which they approach e-business. These rationalities are different from those that characterize larger businesses. They involve personal relationships, social esteem, lifestyle issues, and family considerations. Drawing on the theoretical work of Granovetter and Weber, this chapter examines interview data from a number of Australian studies of e-commerce by small businesses. These interviews illustrate the influence of the social context on the adoption (or deferral) of e-commerce. By recognizing that small businesses are social as well as economic formations, governments can tailor their programs to assist this important group of businesses in their approach to e-business.*

## Introduction

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Large organizations have been active in implementing e-commerce techniques and have pioneered both the adoption of such techniques (e.g., EDI) and the transformation of the organization around them (e.g., BPR). The e-business issues that these organizations face can be understood in conventional business and organizational terms such as return on investment, implementation procedures, and change management challenges. In contrast, SMEs have been generally less active in e-business adoption and are often said to lag behind larger organizations. The smallest businesses are particularly late adopters. The problem of slow adoption by small to medium-sized enterprises is a recurring theme in the literature on e-business. This issue has been discussed in many countries and trading contexts. While much of this phenomenon can be explained as a rational response to business, the realities SMEs face (lack of resources, lack of skills, lack of trading power) do not fully explain what sometimes appears as irrationality in small businesses' reluctance to gain competitive advantage from e-business.

This chapter addresses the issue by considering the diverse rationalities on which many small businesses are based. It argues that these rationalities are often significantly different from the instrumental business rationality which motivates decision-making in large businesses. The argument is not that small-business people are irrational, but that their business rationalities are more complex and are often closely intertwined with non-economic rationalities of social, community, and family life, and this has consequences for the way they approach e-business.

## The Sluggish E-Commerce Performance of Small Business

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While we lack precise and widely agreed definitions of 'e-business' or 'e-commerce' (Wilkins, Swatman, & Castleman, 1999), the range of practices is easy enough to identify.<sup>1</sup> Shifting business activities from paper-based, local, face-to-face, and manual processes to electronic, dispersed, mediated, and automatic processes is the essence of e-business, whether in dealing with customers or suppliers. We are interested in the adoption of IT-enabled changes in business practice, especially related to the Internet, either in B2B or B2C applications. In this chapter, the terms 'e-commerce', 'e-business', or 'doing business online' are used interchangeably because they are all conceptualizations that relate to changes in business practices.

Although the indicators of growth show continued increases in business IT and Internet use (e.g., Telstra, 2002), the adoption trendlines have been disappointingly less steep than governments have hoped or practitioners have advocated. This has led many to wonder why small businesses are very often reluctant to recognize that e-business is advantageous and to embrace this change. The rationality of technological expansion is self-evident to many commentators and SME slowness is seen as a failing to be overcome through 'awareness raising' and support programs.

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