Chapter 5

Managing Impressions of SME Legitimacy: Valuing Information and Communications Technologies as Signals and Symbols

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ABSTRACT

To succeed, SMEs must create 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 potential customers. 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 borrow 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 creation 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.

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INTRODUCTION

Small and expanding firms generate 50 percent of all innovations and 95 percent of all radical innovations in the U.S. (Timmons, 1999; Vesper, 1996). Great opportunities cannot be realized unless innovative firms can attract the resources and support required for their survival and growth (Pfeffer & Salanick, 1978; Starr & MacMillan, 1990; Stinchcombe, 1968). Research on the business value of information and communication technologies (ICT) for small and medium sized enterprises (SMEs) emphasizes its substantive performance role in garnering resources by efficiently managing internal operations and supply chain activities to improve productivity and profitability (Levy & Powell, 2005). While this narrative has value, reliance on a single paradigm limits our understanding of any IS phenomenon (Orlikowski & Iacono, 2001). We explore the business value of ICT using a nontraditional approach that draws upon commonly accepted traditions in non-IS business research and explores the value of ICT in SME legitimacy and competitiveness.

As new ICTs are developed, researchers have attempted to understand their adoption and use by SMEs. This work has 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 (Bharati & Chaudhury, 2006; Blili & Raymond, 1993; Dandridge, 1979; Senn & Gibson, 1981; Wainwright, et al., 2005; Welsh & White, 1981). Previously identified barriers to ICT adoption by SMEs include negative attitudes and the financial and knowledge constraints faced by many smaller firms (Parker & Castleman, 2007). Investments in ICT are usually justified based on demonstrating its substantive business value as a complementary asset in the efficient and effective handling of information to improve the efficiency of transactions and other routine operations, enabling better analysis and strategic decision making (Gregor, et al. 2006; Melville et al. 2004; Murphy & Simon 2002, Peppard, et al. 2007).

However, the organizational literature has long recognized that operational efficiency and productivity are not the only prerequisites for organizational success (Meyer & Rowan, 1977; Scott, 2001). 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). Attracting the resources and support required for SME survival and growth requires that firms also establish that they are credible players in the marketplace; this process is referred to as gaining legitimacy (Pfeffer & Salancik, 1978; Suchman, 1995).

Previous research (Gaglio, Cecchini & Winter, 1998) regarding SME founders’ beliefs about creating legitimacy revealed a surprising uniformity about the characteristics of a legitimate new firm. In most cases, new firms have borrowed or co-opted legitimacy (Starr & MacMillan, 1990) by garnering endorsements and associations and by mimicking the standards, practices, and cues of their relevant industries (Heugens & Lander, 2009). This paper investigates whether these mimicked standards include expectations regarding the use of ICT and whether ICT acts as a signal and symbol 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