Chapter XX

The Role of Application Service Providers in the Development of Small and Medium-Sized Enterprises

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Abstract

This chapter explores the role of application service providers (ASPs) in the development of small to medium-sized enterprises (SMEs) in e-commerce era and guides clients to successfully collaborate with ASPs for competitive advantages. It extensively discusses the advantages and risks SMEs will take when renting applications from ASPs. Furthermore, a five-stage model is presented to investigate the process by which SMEs can establish cooperation with ASPs. At each stage, the factors SMEs need to account for when choosing ASPs, as well as management strategies during relationship building, are examined in detail. Practical recommendations are provided for SMEs to follow in order to set up a successful relationship with ASPs. By understanding this
relationship establishment process through the stage model, practitioners facing the real challenge may learn a well-grounded methodology for ASP selection based on particular characteristics of their organizations.

Introduction

In this era of e-commerce, characterized by change and uncertainty, companies continue to struggle to achieve and maintain their competitive edge. Technological advances become important weapons for companies that expect to compete in this environment. Those initiatives that were once a competitive advantage quickly became competitive imperatives as time passed, such as front-office and back-office automation in a 24/7 environment, enterprise application integration within the organization, and enterprise integration (and particularly the facilitation of communications) between internal and external applications (Heart & Pliskin, 2002). Companies, both large and small, find it very difficult to afford the hardware and software required to run their operations.

Though there is no well-agreed definition of the class of companies referred to as small to medium-sized enterprises (SMEs), they are doomed to confront the most daunting e-commerce challenges such as limited people resources, shrinking budgets, and the constant barrage of competitive threats (SAP, 2002). The U.S. National Institute of Standards and Technology found in a survey that SMEs invest large amounts of capital in IT consulting services and tend to purchase piecemeal applications that are not appropriately scaled for their businesses. Furthermore, it is reported that, “they are not training their staffs appropriately to use the IT solutions in which they’ve just invested. Many IT hardware and software solutions sit idle, are used inappropriately, or are not used to their maximum advantage” (Heart & Pliskin, 2002). Thus, the IS infrastructure of many SMEs resides on fragmented platforms and separate databases, which are too expensive to maintain and too complex to manage. SMEs are faced with the dilemma of having a serious lack of IT competency and requiring unaffordable IT investments. IT, the essential component for any SME to achieve its e-commerce solution, turns out to be the bottleneck to many SMEs’ business initiatives.

The Application Services Provision model emerged in the late 1990s and offers several intriguing benefits, particularly for SMEs that hope to cope with rapid change, high uncertainty, and keen competition (Lacity & Willcocks, 2001). The ASP Industry Consortium (2001) defines an application service provider (ASP) as a company that “manages and delivers application capabilities to multiple entities from a data center across a wide area network.” Forrester predicted that 90% of small business would rely on external providers to host their sites when launching e-business ventures (Gerwig, 1998). In this chapter we explore the role of ASPs as strategic contributors to the growth and development of SMEs.

Practitioners and researchers have a tendency to incorrectly equate ASPs with traditional outsourcing models (Yao & Murphy, 2002). Unlike traditional outsourcing contracts, which are generally long and complicated, the ASP model strives for simplicity with shorter term agreements (Gillan et al., 2000). Moreover, traditional outsourcing models
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