Chapter VIII

Government Intervention in SMEs’ E-Commerce Adoption: An Institutional Approach

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Abstract

This study investigates the role of government in the adoption and diffusion of e-commerce in small and medium size enterprises. Institutional involvement, and especially the role of government, has historically been determinant in the adoption and diffusion of technological innovations. King, Gurbaxani, Kraemer, McFarlan, Raman, and Yap’s (1994) framework of institutional factors in information technology innovation is used to analyze what is actually done and what SMEs would like to be done regarding government intervention to foster the adoption and diffusion of e-commerce. The findings show that the government could mostly influence adoption and diffusion through knowledge deployment, subsidies, and mobilization and that a convergence between companies’ wishes and government initiatives is starting taking place.
Introduction

Innovation and technological change has been considered an important factor for economic development. Freeman (1990, p. 1) specifically states that “all schools of thoughts in economics have always recognized the importance of technological innovations and of organizational innovations for the competitive performance of firms and nations and for the long term growth of the world economy.” Innovation is characterized by three stages: invention, innovation, and diffusion. An invention is a new idea or product, which becomes an innovation when it starts diffusing in the society or move into a usable form. Diffusion is the spread of the capacity to produce and/or use an innovation, and its use in practice. Innovations are normally divided into radical and incremental innovations (Freeman & Perez, 1998; Pavitt 1984). The definition of innovation itself implies that dealing with innovation means dealing with management and reduction of uncertainty. Generally, the greater the changes introduced, the greater the uncertainty about technical performance, the market response and the ability of the organization to absorb and utilize the requisite changes effectively (Rosenberg & Kline, 1988).

Information technology has been among the fastest growing innovations in both production and use in the second half of the last century. In the last decade, a particular type of information technology, the Internet, has been changing business processes, organizational, and industrial structures and has given form to new communication and business forms as for example e-commerce (Zwass, 1996).

The institutional environment created by governments in the form of policies and interventions is very important for the economic development of developed as well as developing nations. Often the economic performance of a country is influenced by the promotional and proactive policies of governments (e.g., Coase, 1992; North, 1991; Teubal, 1979). Also the importance of social and institutional factors such as the involvement of government and the role of the single entrepreneur as enablers and stimulators of innovation have emerged (Sørensen & Levold, 1992). Furthermore, several authors have found that the external environment, including industry associations and the government, is very important in the adoption and diffusion of technological innovations such as telecommunications and more recently e-commerce (e.g., Tornatzky & Fleischer, 1990).

Especially government intervention has been historically important in creating economic growth and in fostering diffusion of technological innovations (North, 1991; Teubal, 1979). For example, Reinert (1999) highlights the role of the state as promoter of economic growth by getting the nation into the “right business,” creating a competitive advantage in “the right business,” setting standards, and