Chapter V

The Impact of IT Investment in South African E-Commerce SME Organizations

Sam Lubbe, University of KwaZulu-Natal, South Africa

Abstract

This chapter considers the possibility of a link between organisational performance and information technology (IT) investment intensity in SME organisations practising e-commerce for the period 2001/2002. The answers to the research questions note that in top performing organisations; (1) IT costs as proportions of operating costs were higher; (2) IT costs as a proportion of turnover was lower, than in weak performing organisations; and (3) that a positive correlation exists between the computerisation index (CI) and the operating costs ratio. The investigation also reveals that chief executive officers (CEO)’s expect additional output while planning e-commerce operations and keeping IT budgets constant. Evidence is presented that company performance is linked to the level of IT investment intensity in the sample of organisations investigated, even though more output was expected from the IT department.
Introduction

Achieving business value from information technology (IT) and e-commerce investment at the same time is probably one of the more common organisational concerns of (CEOs) today (Lubbe & Pather, 2002). IT and e-commerce are the growing areas of investment in most organisations; in fact many organisations will not be able to function without IT or digital commerce. The role of IT has also been redefined by some organisations to include attempts to embark on e-commerce operations. The role of IT in organisations is not merely a tool for processing communication, but a strategic weapon that can thus affect an organisation’s competitive position (Lubbe et al., 2002; Weill & Olson, 1989).

Some of the variables that will be discussed include IT, e-commerce, investment, and achieving value from IT investment. The contribution of this article is significant, as it will contribute to the understanding of managers that the impact of e-commerce may change the way organisations handle their total IT investment. The article will, however, review only South African organisations and aims to improve on the topic’s understanding off IT and digital investment by managers and academics.

Review of Past Research

Mason, McKenney, and Copeland (1997) argue that information systems (IS) as a discipline has not yet developed a tradition of historical research. This historical analysis by them broadens the understanding of the processes and designs during which IT is introduced into organisations and the forces the shape IT investment uses. They argue that a dominant design for this shape could be manifested in several ways; a new organisational infrastructure, new functionality, new products, new services, new production functions or new cost structures. The problem with historical analysis is to discover why some organisations lead their respective industries in the use, design and application of IT, and why other organisations, having spent millions of dollars achieved modest success rates.

Hu and Plant (2001) argue that the promise of increased advantage was the driving force behind large-scale investment in IT since the 1970s. Current debate continues amongst managers and academics with reference to the measurable benefits of IT investment. Return on investment (ROI) and other performance measures in academic literature, indicates conflicting empirical findings. They also submit that it would be convincing to infer causality if IT investment in the preceding years is significantly correlated to the performance of the organisation in the subsequent year. Hu et al. (2001) used the Granger causality model with three samples of
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