Chapter I

SMEs and Electronic Commerce:
An Overview of Our Current Knowledge

Small to medium enterprises (SMEs) are generally regarded as the cornerstone of developed economies. Most governments view the SME sector as a major driver of the economy and a source of employment opportunities. It is widely recognised that SMEs are not simply scaled down versions of large organisations. SMEs have their own unique characteristics, which can either lead to improved competitiveness or inhibit growth depending on how they are managed. Increasingly, the emphasis has been on promoting the use of information and communication technologies (ICTs) in SMEs in order to encourage the advancement of the sector and underpin the development of a knowledge-based economy. In recent times, the emphasis has been on the adoption of electronic commerce (e-commerce) technology.

Unlike previous technological initiatives, however, e-commerce is a “disruptive” innovation that is radically changing the way organisations do business. Where previous innovations have sought to minimise dependency on other firms, allowing the business to dictate production, marketing, and other business functions, e-commerce has forced organisations to reassess their boundaries and to focus their attention interorganisationally rather than organisationally. As SMEs confront an environment that is increasingly complex, technologically uncertain, and globally focused, there is a growing need to be flexible and pro-active in business dealings. An e-commerce business strategy may seem to be the ideal solution to

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this. But how well are SMEs equipped to implement e-commerce, what kinds of benefits can they expect, and what are the problems they are likely to face? These are questions to which we have only partial answers. The study presented in this book aims to add new information to this body of knowledge so that government organizations can promote e-commerce uptake by SMEs more effectively, particularly in regional areas, which are located outside major metropolitan cities and do not have the same infrastructure and resources available in highly urbanized areas.

This chapter will set the context for the study described in this book by presenting an overview of the relevant literature about SMEs and e-commerce. It should be noted that existing knowledge about e-commerce adoption by SMEs in the traditionally disadvantaged, regional areas is limited. Most of the literature presented here pertains to SMEs in metropolitan areas where access to IT infrastructure and resources is readily available. These findings by previous studies, therefore, represent the backdrop for our study and our aim is to add to the findings and extend the knowledge about e-commerce adoption to SMEs located in regional areas.

The chapter will begin with an examination of the nature of SMEs and an outline of the business characteristics that are unique to this sector. An overview of regional areas will then be given in order to provide an insight into the issues that affect these areas. This will be followed by a discussion about general IT adoption in SMEs in order to identify the broader adoption issues. The final part of this chapter will focus on e-commerce technology and e-commerce adoption issues in SMEs.

The Nature of SMEs

The nature of SMEs can be understood from the perspectives of how they are formally defined and the characteristics that are unique to this sector.

Defining an SME

There are a number of definitions of what constitutes an SME. Some of these definitions are based on quantitative measures, while others employ a qualitative approach. Meredith (1994) suggests that any definition of an SME must include a quantitative component that takes into account staff levels, turnover, and assets together with financial and non-financial measurements, but that the description must also include a qualitative component that reflects how the business is organised and how it operates.

The lack of a formal means of defining an SME has lead to diverse approaches by governments and other organisations in different countries. In Australia in the 1960s, the federal government commissioned a report from a committee known as the Wiltshire Committee. This report suggested a flexible definition of an SME as (Meredith, 1994, p. 31) "one in which one or two persons are required to make all of the critical decisions (such as finance, accounting, personnel, inventory, production, servicing, marketing, and selling decisions) without the aid of internal (employed) specialists and with owners only having specific knowledge in
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