

CHAPTER TWO LITERATURE REVIEW

2.1 Introduction

This chapter is a review of literature related to the influence of SMEs to adopt B2B e-business to identify the relationship between perceived benefits, technology readiness, and owners IT the ability to business-to-business e-business adoption. Other than that, the conceptual framework, hypotheses of topic and summary for the chapter. In the literature review, the researcher will be explained the influence of e-business on SME growth by using B2B e-business adoption in Indonesia and examine the effects of B2B e-business adoption on the SME growth using a quantitative method by relating perceived benefits, technology readiness and owners IT ability among people in Indonesia. This research is essential to be highlighted in e-business research because Indonesia has a vital role in developing small and medium enterprises. The SME industry also has several types of business based on the specification of the product they are selling. In this paper, the researchers use various kind of SMEs as the research object to find various findings on how B2B e-business adoption influence SME growth in Indonesia.

2.2 Review of Related Literature

Jeffcoate et al. describe e-Business involves an internal and external process that involves operational, managerial and strategic advantages, which enable firms to have a closer relationship with their customers and suppliers. Therefore, the success of e-Business adoption is represented by the ability to integrate the internal elements and external diffusion (Lin). In the context of SMEs, the internal integration is associated with the central internal part, such as the owner-manager and the organization. In contrast, external diffusion is influenced by external influencers such as trading partners and the government. However, the following section of this paper will explore internal and external factors that impinge the adoption of e-Business for Indonesian SMEs, particularly in the B2B sector. Most researchers state that e-business and e-commerce are similar in selling and buying products on the internet, and others define e-business and e-commerce as distinct. For example, Chaffey (2011) argues that e-commerce is a subset of e-business. Also, IBM defined e-business back in 1997 as

"the transformation of key business processes through internet technologies" (Chaffey, 2011). However, Fillis et al. (2004) state that e-businesses as companies that employ ICT in their business operations but exclude sending and receiving text-based email messages. Hence, the researchers would like to find the relationship between the customer and seller in e-business regarding their business growth.

2.3 SMEs and e-Business

Nowadays, the worldwide economy is developing, and e-business has increased and become an essential component of business strategy and economic development. Integrating information and communications technology (ICT) affects the organization and individual. In addition, ICT has a strong effect on businesses with improved productivity, an increase in the number of customers, and reduced the cost of products (Andam et al., 2003). However, one of the most critical strategies that can effectively help SMEs enhance their business performance is the utilization of information and communication technology (ICT) (Sin Tan et al., 2009). Moreover, ICT can provide SMEs with several competitive advantages, such as integrating supply chain partners and organizational functions and offering critical information right (Sharma & Sheth, 2004).

However, the characteristics of SMEs, such as structure, resource constraints and size, generate several challenges and difficulties in the adoption of ICT. According to MacGregor and Vrazalic (2005), despite the rapid growth of ICT within SMEs, small and medium enterprises' level of ICT adoption remained comparatively low. The lack of financial resources required for ICT development and maintenance is one of the main reasons preventing SMEs from adopting ICT (Parida et al., 2010). According to Ghobakhloo et al. (2012), small enterprises have less tolerance for accepting the costs and risks of adopting new technologies. Furthermore, the lack of ICT literacy among the owners and employees is another barrier that inhibits effective ICT deployment within SMEs (Mehrtens et al., 2001).

2.4 E-Business Measurement Evolution Model

This research contributes to the existing literature on e-business adoption by outlining the factors involved with e-business adoption in SMEs in developing countries and Indonesia. Also, by testing the e-business Measurement Evolution model on Indonesia SMEs. This study develops a specific e-business Measurement Evolution model based on the contribution of existing literature and the e-adoption ladder model. This is because organizations may differ in their level of e-business adoption, varying from the effortless use of emails to a more complex collaborative platform used to deliver services to employees, partners and customers.

The e-business Measurement Evolution model consists of nine stages that can help SMEs understand the level of e-business in their firm. Stage zero means the business does not have internet access. Stage one (Emails) means the business does not have a website but accesses information and services on the internet and uses email for communications. Stage two (Social Media) means the business has pages on social networks such as Facebook and uses these pages for advertising their products and services and including information about the business and contact details. Stage three (Websites) means the business has its websites which only include essential information about the business; it relies on customers initializing contact for further information. Stage four (E-commerce) means customers can access more detailed information about products/services, and customers can buy and pay for products/services from the website. However, the website is not linked to internal systems and orders are processed manually. Stage five (Mobile Apps) means the business has developed mobile apps which include their product and services, and the consumer can purchase goods and services through the app. The mobile app is linked to internal systems, automatically processing orders. Stage six (Cloud Service) means the business uses cloud services to store their files, software, and applications. The business will be able to access the applications and services across a range of devices and networks from anywhere. Stage seven (E-business) means the online "store" is integrated with other business systems, e.g. order processing, fulfilment, accounts or marketing. Stage eight (Transformed organization) means internet technology drives the business internally and externally and manages all processes more effectively and efficiently.

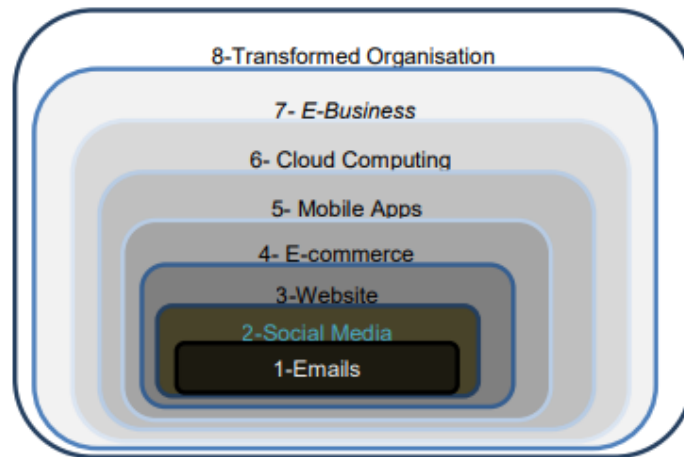


Figure 2.1 E-business Measurement Evolution Model

2.5 SMEs in Indonesia

Defining the term Small and Medium Businesses is sometimes controversial and arguable (Street and Meister). There are various ways to determine the definition of SME, and they differ across countries. Therefore, the ideal aim of the study is (Nooteboom). SMEs are categorized based on the classification from the Indonesian Small Medium Enterprises Organization (DEPKOP) and The Central Bureau of Statistics (CBS) in Indonesia (DEPKOP; Kartiwi). The different classification of Indonesian SMEs is depicted in the employee size, where small firms in Indonesia have 5-19 employees compared to most of Europe with 5-50 employees.

2.6 E-Business Supports for SME in Indonesia

Indeed, the low ranking of Indonesian NRI by the World Economic Forum and INSEAD has also prompted the Indonesian government and citizens to recognize the fretting condition of Indonesian e-Readiness. The assessment of the report has indicated that Indonesia is still lagging in terms of e-readiness, such as (1) lacking policies and regulations on software protection and business development, regulations on facilitating PC penetration and support ICT, (2) poor telecommunication infrastructure in mobile network coverage, Internet bandwidth and secure Internet server (3) low affordability of Internet access through fixed Internet broadband or telephone mobile line (4) limited in ICT experts and skills (5) low numbers of Individual, Business and Government participation on ICT diffusion and penetration. According to Julia et al., government plays a significant role in assisting ICT diffusion.

Government programs and partnering with SMEs could boost SMEs' development in the digital economy (e-Business). Moreover, government support could also enhance SMEs' knowledge of e-Business by providing funding for e-Business research centres and facilitating e-Business adoption for SMEs through seminars and workshops (Julia et al.). This would be an advantage for Indonesian SMEs in adopting B2B e-Business. Many experts believe that consistent broadband connectivity and availability in a country are fundamental to supporting B2B e-Business adoption (Zakaria and Janome).

On the other hand, to adopt B2B e-Business successfully, SMEs should not only depend on their internal have to consider the industry/market and IT service providers (external support) standpoint (Reimers et al.; Shakir et al.). Likewise, a company with a high state of ICT adoption might find it challenging to build external contact with another party if they have not adopted or are still in their early stages of adoption. Therefore, integrating SMEs, external support, and their market or partners is crucial for e-business implementation.

2.7 Hypothesis Development

According to Zakaria and Janome's conceptual framework, there are eight essential aspects to consider when evaluating a firm's readiness in e-Business, involving: individual, enterprise, government readiness, competency, technology, business process, market forces and supporting industries. However, with the integration of the previous theories and conceptual framework from the literature above (of Zakaria and Janome; Fillis et al.; Shakir et al.; Thong; Reimers et al.; Lin), this paper has identified four key indicators that will be used in analyzing the influence for Indonesian SMEs growth in adopting B2B e-Business. The four key indicators are individual, organization, technology, market, and industry. As Jeffcoate et al. defined, e-Business involves both internal and external processes; consequently, those four key indicators will be classified into internal and external factors based on the source of the impacts. The internal factors are caused and arise within or inside the company, while the external factors are developed or influenced outside the company.

The internal factors consist of individuals and organizations. The individual in SME sectors will be the owner-manager since they are the critical decision-maker that

determines the adoption of e-Business (Fillis et al.; Thong). In this section, owners implementing e-Business will be studied because it is essential to understand each perspective that leads to adopting e-business. Likewise, organizational learning and ICT knowledge are equally crucial to the adoption of e-Business. As Lin stated, if an organization has a receptive culture towards innovations and technologies, it will ultimately enable them to adapt to e-Business. Thus, another critical factor is the organization's readiness and receptiveness.

On the other hand, external factors include technology, market, and industry. Some significant issues for emerging countries to adopt e-Business implementation are caused by the poor technology penetration (PC) and lack of telecommunication infrastructure and external support that provides IT services and e-Business support. Thus, it is vital to examine each of the availability of these aspects to determine whether this is one of the significant barriers that impinge those SMEs in adopting B2B e-Business. Therefore, perception of the market also industry is required to recognize to what extent those SMEs have been assisted and aware of the current resident support in e-Business. Moreover, examining both industries' readiness is also crucial to point out the willingness for e-Business adoption.

2.8 Conceptual Framework

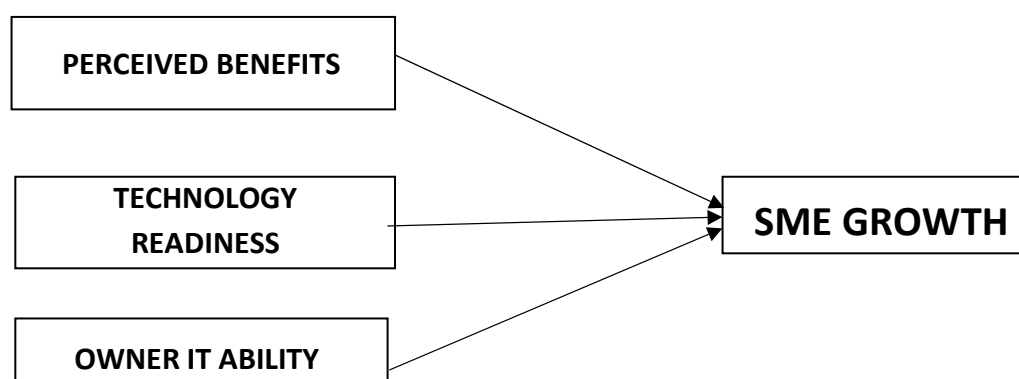


Figure 2.2 Conceptual Framework

Source: A framework for factors affecting mobile users' switching intentions
(Rodrigo, Luis, Jorge, 2013)

2.9 Research Hypothesis

H1: There is a relationship between perceived benefits and SME growth.

H2: There is a relationship between technology readiness and SME growth.

H3: There is a relationship between owner IT ability and SME growth.

2.10 Summary

The literature review has recognized that these three variables are factors that influence the adoption of B2B e-Business to SME growth. Previous research has also shown that these three topics are closely linked to SMEs agent. SME growth percentage can help the researcher solve the questions of how perceived benefits, technology readiness, and IT ability could be used to improve the growth of their SMEs. Hence, it is clear that most SMEs agent already understands the importance of e-Business as the usage of Indonesia's e-Business increased significantly in the pandemic era and led Indonesian SMEs to grow upon this platform..