

CONSULTANCY ENGAGEMENT AND E-BUSINESS DEVELOPMENT – A CASE ANALYSIS OF AUSTRALIAN SMES

Shirley Bode, Janice Burn

School of Management Information Systems, Edith Cowan University, Pearson Street, Churchlands WA 6018,
AUSTRALIA
Tel.:9273 8198
s.bode@ecu.edu.au, j.burn@ecu.edu.au

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ABSTRACT

The majority of SMEs have neither the internal expertise nor financial resources to enable in-house development of e-business and therefore turn to the services of website design consultants to assist them. Unfortunately, they often engage consultants without any clear idea of their intended e-business strategy and without due care as to effective engagement processes. This frequently leads to ineffective e-business development and a highly disaffected group of small entrepreneurs. This paper presents the initial findings from a study of ten Australian online retail business to consumer SMEs who contracted website design consultants to produce their sites. It assesses the effectiveness of Gable's (1989) 12-phase model for consultant engagement as a tool for evaluating SME website development outsourcing. The study suggests that there is a significant gap between the intended strategies of SMEs and the actual e-business strategy implemented.

1. INTRODUCTION

The relationship between Small and Medium Enterprises (SMEs) and e-business has been found to be an uncomfortable fit. Research has found that SMEs have been reluctant to adopt electronic commerce principles and practices in their day to day business transactions (DIST, 1998, Shern, 1998, SBI, 1998, Yen, 1998).

This reluctance has been traced to early forms of e-commerce, principally Electronic Data Interchange (EDI). EDI transactions were not particularly suited to the SME environment as they were expensive and involved the use of proprietary software which could not be used with other business partners (DIST, 1998; Rose, et al, 1999; Turban, et al, 1999). A number of SMEs that embraced this technology felt "locked into" a system that did not provide them with any real economic benefit (DIST, 1998; Iacovou et al., 1995).

An OECD report "Enhancing the Competitiveness of SMEs in the Global Economy: Strategies and Policies" (2000) found that the penetration rate of the Internet in the Australian SME sector is only 25% (see figure 1):

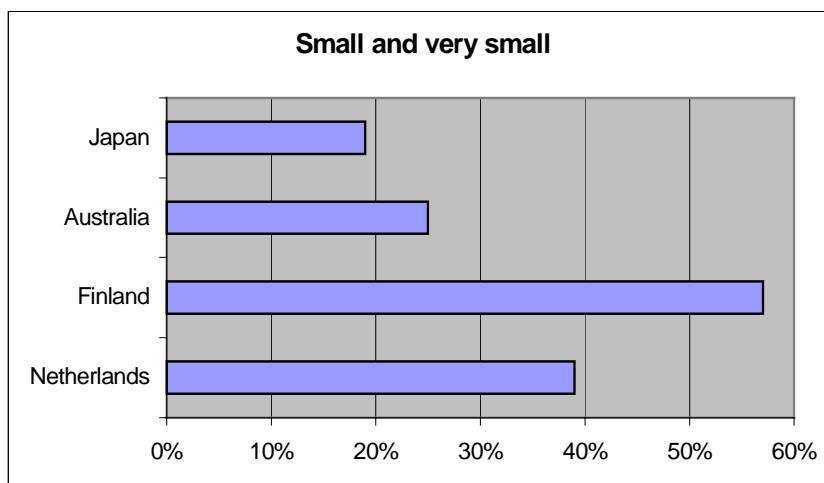


Figure 1: Internet penetration in the small business sector in selected OECD countries (OECD, 2000)

Another factor that presented a barrier to the early uptake of e-commerce by the SME sector was the size and scope of SMEs. The majority do not employ IT Managers or specialists. In the SME sector IT decisions and operational factors tend to be relegated to the realm of the Accountant, Manager or Owner-Operator and are mostly seen as a peripheral and sometimes annoying business factor (Prakash, 1998; Shern, 1998; DIST, 1998). Consequently, many SMEs tend to rely on external consultants to design and implement websites and in so doing often outsource their e-business strategy.

The questions addressed in this paper are:

1. Do SMEs have explicit e-business strategies prior to development of a website;
2. Are website consultants engaged through a formal engagement process, aligning business and web development strategies;
3. To what extent do SMEs feel their individual e-business needs are understood and met by website design consultants?

In an attempt to answer the above questions this paper incorporates a case study of ten Western Australian online SMEs who contracted Website Design Consultants to produce their sites. The SMEs chosen were established retail businesses and each utilised the services of different website design consultants.

2. WEBSITE DESIGN CONSULTANTS AND SMES

2.1. Definition of Website Design Consultants

For the purposes of this research Website Design Consultants were identified as consultants offering a 'total electronic commerce solution' to potential SME clients. For example common claims made by Website Design Consultants on their web pages include:

- "[we] offer complete Internet solutions for Australian business - we are here to serve you!";
- "We understand that managing the transition to e-commerce requires specialist knowledge - both business and technical. [we] have the resources and expertise to make the jump to e-commerce. Talk to us about developing a practical online strategy for your business."

Other common terms for Website Design Consultants include, 'Website Developer', 'Internet Developer' and 'Web Page Designer' [Cormier, 1999 #149; Falkenstein, 1996 #148]. Regardless of nomenclature, the

definition of a Website Design Consultant for the purposes of this research is a consultant who offers a complete solution for the SME venture into business to consumer electronic commerce.

2.2. The Relationship between Website Design Consultants and SMEs

The success or failure of a SME engaging a website design consultant involves a number of issues. Firstly, it may be the SMEs first attempt at engaging an external consultant and the SME may lack the relevant knowledge and experience required for successful engagement. Secondly, website design consultants are often SMEs themselves, and in the current climate of accelerating growth in the e-business area, website design consultants are often business start-ups and consequently, may lack experience in negotiating successful contracts. Finally, consultants tend to view SMEs as one-off jobs and may consequently lack commitment to the project:

“small firms were viewed as one-shot opportunities, offering no potential for establishing a long-term relationship. Consultants...would sell the small firms software and hardware, put together a network, and move on to the next company” (McCollum, 1999).

Thong and Yap's (1996) research examined external expertise and management support for the implementation of Information Systems in small business. Their findings suggest that, whilst top management support is one important factor, high quality external expertise is critical to successful IS implementation in the small business sector. Gable, (1989a, 1991) identified a number of issues that SMEs need to consider when engaging the services of a consultant. These included the amount of time and effort the SME contributes to the project and the maintenance of a clear understanding of the role of the SME and the role of the consultant. Gable, (1989a) developed a twelve phase model of consultant engagement to clarify the role of a SME in selecting a consultant (see Table 1).

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| <ol style="list-style-type: none">1. define the problem;2. evaluate internal resources available for the project;3. canvass the market for prospective consulting firms;4. develop a request for proposal (RFP);5. check references;6. evaluate proposals;7. select a firm;8. negotiate the contract;9. announce the selection;10. continuing review and refinement of mutual and individual responsibilities;11. continuing monitoring and control of progress and12. post-engagement evaluation of the service. |
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Table 1: Gable's 12-phase model (1989a)

Gable, in a later study, introduced the concept of the 'pro-active client role in small business' and identifies areas where consultants failed to adequately meet key steps in the 12-phase model.(Gable, 1991). In conjunction with this, Gable assesses the impact of client involvement in consultant engagement finding that "effective engagement requires that the problem is well defined and an appropriate consultant is selected with the problem in mind". He then identifies three areas where SMEs can improve their consultant engagement process:

- assess client and consultant compatibility (phases 5, 6, 7 & 8);
- identify and address specific organizational roles (phases 1,2, 11 & 12) and
- accommodate evolving project objectives (phases 11 & 12)

Although Gable's studies focus on first time computerization, it is felt that his model may be applicable to Australian SMEs engagement of website design consultants.

3. RESEARCH METHOD

The research design and methodology for this study is qualitative in nature and based on an *interpretivist* perspective. "The objective of interpretive research is to piece together people's words, observations and documents into a coherent picture expressed through the voices of the participants" (Trauth & Jessup, 1999, p.26) and as Fisher states "It [the interpretivist approach] does not seek to identify or test variables but to draw meaning from social contexts" (Fisher & Arnott, 1998, p.216).

Use of the interpretivist approach is to enable the researcher to make sense of the people and organizations involved in the research project and to develop theory via an inductive process whereby, "immersion in the details and specifics of the data to discover important categories, dimensions, and interrelationships; begin by exploring genuinely open questions rather than testing theoretically derived (deductive) hypotheses" (Patton, 1990, p.40).

The interpretivist approach differs from the *positivist* perspective whereby research is conducted in order to test theory using a deductive process and applying a natural science methodology to social phenomena (Bryman, 1984; Fisher & Arnott, 1998).

Klein and Myers (1999) define positivist research as dependent on "...formal propositions, quantifiable measures of variables, hypothesis testing, and the drawing of inferences about a phenomenon from a representative sample to a stated population" (p.69).

A positivist approach is not considered suitable for this research project as positivism assumes the existence of objective or value-free data, whereas interpretivism implies that knowledge is a social construction. Thus, in interpretivist research, "value-free data cannot be obtained, since the enquirer uses his or her preconceptions in order to guide the process of enquiry" (Walsham, 1995).

Because the research was interpretive and designed to examine the experiences, ideas and opinions of a small number of SMEs who had direct experience in consultant engagement for their first entry into e-business it is not expected that this study is generalisable to the entire population of SMEs. The purpose was to examine and comprehend major issues facing Australian SMEs, consultant engagement and e-business, which would lead to further research on a larger scale.

3.1. Case Studies

To find an appropriate research methodology for this project, a review of the literature on research methods in Information Systems, Electronic Commerce and SMEs was conducted. It was decided that theory building using a multiple case project approach would be utilized. As electronic commerce, particularly in Australia, is still in an emergent phase it was felt that the case research methodology would be most appropriate:

Case research is best utilized when the goals of the researcher and the nature of the research topic influence the selection of a strategy. Case research is particularly appropriate for certain types of problems: those in which research and theory are at their early, formative stages. [Benbasat, 1987 #56].

A review of the literature into research methodologies highlighted the usefulness of the case methodology in new and relatively new fields (Benbasat *et al.*, 1987; Carroll *et al.*, 1998; Poon & Swatman, 1997; Rose, 1991; Stake, 1994; Yin, 1994).

Case studies have a long history of use in the IS field. There are multiple definitions of case project research and they cover a wide range of research methods, from single in-depth case studies to multi-site, multi-method studies.

Benbasat, *et al.*, (1987), defines case studies as:

A case project examines a phenomenon in its natural setting...The boundaries of the phenomenon are not clearly evident at the outset of the research and no experimental control or manipulation is used...The case project researcher may have less a priori knowledge of what the variables of interest will be and how they will be measured. [Benbasat, 1987 #56 p.370]

3.2. Sample

The cases were chosen via a deliberate theoretical sampling plan (Minichiello *et al.*, 1995). The basic premise of theoretical sampling implies that participants are chosen deliberately to suit the parameters of the research. In this study the parameters included online Australian SMEs whose websites were designed by a Website Design Consultant. As Burgess states "Theoretical sampling...involves researchers in observing groups with a view to extending, modifying, developing and verifying theory" [Burgess, 1984 #80]. Minichiello *et al.*, (1995) adds that theoretical sampling must be relevant to the evolving data. He further suggests that theoretical sampling requires 'purposeful' selection of informants that "have been identified as relevant categories in the literature" (p.163). To facilitate this study the researcher collected online small business contacts from four Internet directory sites www.aussie.com.au, www.ozsearch.com.au, www.perthwa.com.au and www.webwombat.com.au. From this, ten online SMEs were identified and chosen based on the following criteria:

From this, ten online SMEs were identified based on the following criteria:

- ◆ <5 employees (micro category);
- ◆ <20 employees (small category);
- ◆ <100 employees (medium category);
- ◆ Retail business;
- ◆ Websites capable of electronic transactions;
- ◆ Website designed by an external consultant and
- ◆ Business located in Australia.

The data collection method consisted of interviews with Owner/Managers of the SMEs located in both metropolitan and regional areas. Each of the participants was interviewed in person and the interviews took between 40 minutes to one hour. The interviews were semi-structured and based on the major issues identified by Gable's 12 phase model [Gable, 1989b #140] whilst also allowing additional issues to be raised by the interviewees.

Because the research was interpretive and designed to examine the experiences, ideas and opinions of a small number of SMEs who had direct experience in consultant engagement for their first entry into e-business it is not expected that this study is generalisable to the entire population of SMEs. The purpose was to examine and comprehend major issues facing SMEs, consultant engagement and e-business, which would lead to further research on a larger scale.

3.3. Background Information of Case SMEs

The following table presents the background information of the case SMEs:

SME	Founded	Staffing	Increase in annual sales turnover directly related to website	Date website started
SME #1 Educational products supplier	1995	2 full-time 2 part-time	15%	November 1998
SME #2 Clothing retailer	1997	1 full-time 2 part-time	0	May 1999
SME #3 Giftware retailer	1980	3 full-time 1 part-time	15%	November 1998
SME #4 Music retailer	1971	14 full-time	20%	1996
SME #5 Boating retailer	1956	25 full-time	0	1998
SME #6 Car retailer	1994	27 full-time	300%	1997
SME #7 Reticulation	1963	5 full-time 2 part-time	0	March 2000
SME #8 Giftware retailer	1999	2 full-time	15%	July 1999
SME #9 Lingerie retail	1994	1 full-time	10%	June 1999
SME #10 Sport & Leisure	1931	10 full-time 20 part-time	15%	1998

Table 2: Background Information of case SMEs

4. RESULTS AND ANALYSIS

The interview data was analysed using a matrix as proposed by Miles & Huberman (1994). The purpose of this method of analysis is to enable the data to be analysed visually and the data from the cases to be easily compared and contrasted and themes and patterns identified. The data was then further analysed using Gable's 12-phase model for consultant engagement.

Table 3 illustrates how closely the SME case studies adhered to the guiding principals of the 12-phase model (Gable, 1989) for consultant engagement:

Gable's 12-phase model	1	2	3	4	5	6	7	8	9	10
1) Define the problem	•	•	•	•	•	•	•	•	•	•
2) Evaluate internal resources	•	•	•	•	•	•	•	•	•	•
3) Canvass the market									•	
4) Develop RFP									•	
5) Check references	◇		•		◇				◇	
6) Evaluate proposals										
7) Select firm	•	•	•	•	•	•	•	•	•	•
8) Negotiate a contract			•							•
9) Announce selection										
10) Continuing review of responsibilities	•	•	•	•			•	•		
11) Continuing monitoring & control	•	•				•	•			
12) Post-engagement evaluation	•	•								

Table 3: SMEs and Gable's (1989) 12-phase model

Legend: • completed step
 ◇ partially completed step
 informally completed step

4.1. Consultant Engagement

None of the case SMEs utilized each of the steps in Gable’s model (see Table 5 above). SME #1 completed six steps and partially completed two and SME #3 completed six steps, the remaining SMEs completed five or less steps. Only one SME canvassed the market and developed a request for proposal prior to consultant (step 4). Although, interestingly eight of the SMEs stated that in hindsight they would have canvassed the market and asked for full quotations.

Table 4 below indicates where the SMEs found their website designers:

SME	Method of choosing website designer
#1	Internet Service Provider (ISP)
#2	ISP
#3	Psychic
#4	Can't remember
#5	Friend
#6	Friend
#7	Business Associate
#8	Friend/work colleague
#9	Request for Proposal (RFP)
#10	Yellow Pages

Table 4: Method of choosing website designer

Seven of the SMEs relied on recommendations from friends, colleagues or their ISP, trusting that the recommendations were appropriate. Only one SME developed an RFP and obtained several quotes. Three SMEs viewed the refereed sites suggested by the consultant, but did not contact either of the sites for a verbal or written confirmation, SME #4 "got a feel for them" during informal discussions.

Six of the SMEs did not have a formal written contract with their consultants although two SMEs had negotiated a verbal contract in relation to pricing for the design of their site. SME #3 and SME #10 had written contracts with their consultants and found the contracts failed, SME #3 stated:

"Yes there was a formal contract, it included a budget which got blown out, it included a timeframe which didn't work, to be honest I think the contract was a complete waste of time because nothing in it has been stuck to..." (SME #3).

It is believed that a formal written contract with agreed penalty clauses outlining the roles of both parties, requirements for the sites, pricing, timeframes and contract variations would have been useful for the SMEs when engaging a website design consultant.

SME #1 and #3 had engaged in a process of review with their consultants, whereas the others had not. Interestingly, all SMEs had, or were in the process of, severing the client/consultant relationship. SME #1 and SME #3 had employed .5 FTE staff to maintain and update their sites, whilst SME #2 intended to conduct future updates in-house and SME #4 and #10 had allocated the task to internal staff. For all the SMEs this decision was not merely a cost-cutting exercise, all felt they lacked control over their sites and could manage the sites better internally or with a new consultant:

4.2. Pricing and Service

In the analysis of the data, pricing and service were recurrent themes for all the SMEs and the importance of clarifying the role of consultant and client was very clearly highlighted. In several of the cases, it appeared that the SMEs passively trusted the consultant to produce results at minimal cost. Gable (1991) stated that the "misconceived view of the client role"(p.88) is one of the prime reasons for the breakdown of the client/consultant relationship.

Nine of the SMEs felt that they had been overcharged and did not receive value for money from their website design consultants. Interestingly, only two of the SMEs voiced their concerns with the consultants it appeared that assumptions regarding billing were made but not explicitly drawn to the consultant's attention to enable any potential rectification.

This lack of feedback from the client to the design consultant confirms Gable's (1991) statement. This is further highlighted in comments made by several of the SMEs in regard to a perceived lack of follow-up service provision.

4.3. Consultant Experience

One of the client concerns identified by Gable in his analysis of consultant engagement is that consultants often appear to have minimal relevant experience. He stated that this may be overcome if selection of a consultant were guided by his 12 phase model. The SMEs in this study lend support to this statement as they did not adhere strongly to the guidelines of Gable's model and very clearly felt that their consultants lacked essential experience.

For example, one of the SME believed their consultant was technically competent, but lacking in original ideas. "I don't think they have any ideas of their own. I think they are very good technically, but I don't think either artistically or marketing wise that they are particularly well clued up". Another SME stated "We gave them our catalogue, we thought they'd come up with something whizzbang but they copied exactly what we had done. We could have done that ourselves...they gave us the basis but that was all, there wasn't any extras...we fed them the ideas."

The development and evaluation of an RFP, steps 4 and 6 in Gable's model, may have clarified for the SMEs exactly what they were seeking from a website design consultant. In conjunction with the RFP, the preparation of a firm contract (step 8) may have assisted in circumventing these problems.

4.4. E-Business Strategy

Prior to consultant engagement a SME should have a clearly defined Internet strategy. Current research shows that another important factor in the success of online enterprises is their ability to align business processes with website strategy. (Angehrn, 1997 Poon & Swatman, 1995 Cragg, 1998, Bergeron *et al.*, 1998; Lawrence & Chau, 1998).

In this research it was found that only one of the SMEs actually planned the implementation of their website. The others relied on ad-hoc ideas, thoughts and hopes for their sites. When interviewed, the SMEs could verbally identify their primary and secondary goals, but were less clear in regard to content strategy. All the SMEs had future goals for their sites but had not formulated a structure for ensuring their ideas were captured, that plans and timeframes developed, or that future costs were identified.

5. CONCLUSION AND FUTURE RESEARCH

There are many factors affecting the success of SMEs entering the world of e-business and this paper focused on two possible factors. Firstly, consultant engagement for web design was investigated using Gable's 12 phase model for consultant engagement, and secondly e-business strategies were explored to identify the main intended uses of the websites.

Question 1) Do SMEs have explicit e-business strategies prior to development of a website:

Prior to consultant engagement, a SME needs to have a clear idea of their e-business goals and the strategies required for achieving those goals. However, none of the case SMEs appeared aware of this concept. Although the SMEs could identify their primary, secondary and content goals verbally, they tended to rely on ideas, memory and hopes for the future success of their online venture. None of the SMEs had allocated

an ongoing budget for future maintenance and development of the sites nor had they clearly articulated or formalized future aims, identified time-frames or developed clear strategies for achieving any of these objectives.

Question 2) Are website consultants engaged through a formal engagement process, aligning business and web development strategies:

The analysis of the interview data showed that Gable's 12 phase model is a worthwhile tool for evaluating SME involvement in engaging external consultants to design their website. One aspect of this model that is particularly useful is its potential for clarifying the mutual roles and obligations of the client/consultant relationship. The model could be used in order to guide negotiations and relations between the client and the website design consultant to achieve a more successful outcome. It was found that none of the case SMEs fully adhered to Gable's 12-phase model and the ten SMEs in this study each felt a strong measure of disillusionment with the consultant engagement process and also with the resulting e-business strategy.

Question 3) To what extent do SMEs feel their individual business needs are understood and met by website design consultants:

The data from the case studies indicates that none of the SMEs felt that their individual business needs were understood or met by the website design consultants. In fact the case SMEs themselves appeared unable to articulate their own business needs.

All the SMEs had, or were in the process of, severing the client/consultant relationship. Again, all the SMEs felt they lacked control over their sites and could manage the sites better internally or with a new consultant.

Ongoing research for this project involves an online focus group of SMEs and future work is directed towards an Australia-wide cross-case analysis of SMEs and engagement of website design consultants, and an analysis of consultants and their strategies for e-business development.

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