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BEYOND THE TRADITIONAL 'SME CHALLENGES' DISCOURSE: A HISTORICAL FIELD STUDY OF A DOT.COM FAILURE IN GHANA

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Abstract

To date the literatures on e-business have predominantly focussed upon cases within the developed world. That said, increasing attention is being given to this area in developing countries. However, this strand of work is further limited in that it focuses upon macro level issues of bringing countries 'up to the level' of the developed world in the context of discourses around the global knowledge economy. In this paper, we draw upon an interpretive historical field study to extend this body of work, focussing upon the issues presented to a dot.com SME in Ghana. Current accounts of e-business failure tend to emphasise problems arising due to a lack of substance in business ideas, and in SME terms, issues associated with acquiring and maintaining the necessary resources, skills and technical expertise to keep the business going. In our case, the company did not significantly suffer from any of these issues. Moreover, whilst it experienced problems as a result of its geographical location it was ultimately a period of financial instability throughout Ghana that led to the company's downfall. The findings of this study thus challenge some of the assumptions around SMEs and the capacity of those in developing countries to engage with technology.

Keywords: SMEs, e-business, developing country, dot.com, success and failure, Ghana.

1.0 Introduction

Small to medium-sized enterprises (SMEs) are very important to the economy of many countries irrespective of the level of development. Their significant contributions to economic development, business development and employment have

been well acknowledged by various Governments, practitioners and researchers across the world (OECD, 2000; Kartiwi et al., 2006; Jones et al., 2003). This is further evidenced by the interest of international co-operations such as the International Monetary Fund, World Bank, United Nations Development Programme, and Organisation of Economic Co-operation and Development (Kartiwi et al., 2006) in supporting SMEs across the world. In a number of developed nations, SMEs form a large proportion of businesses and contribute significantly to gross national product and employment (Kartiwi et al., 2006). In developing countries, aside wealth creation and employment, the sector is regarded as the engine of growth and poverty alleviation (Kapurubandara, 2006; Kartiwi et al., 2006).

E-business has been regarded as an innovative solution for SMEs to overcome resource limitations, seek growth, compete with large organisations and to gain access to global markets (Al-Jaghoub et al., 2007; Cloete et al., 2002). For developing countries in particular, it is noted that e-business innovation provides SMEs with huge opportunities for access to global markets, niche marketing, business knowledge, business development among others (Duncombe and Heeks, 2001; Kartiwi et al., 2006; Cloete et al., 2002; Mbarika et al., 2005). However, constraints for SMEs to access these opportunities such as lack of financial resources, time to implement, technical support, security and unfavourable business culture have also been well documented (Li, 2007; Jones et al., 2003).

Reviewing the extant literature on SME e-business, we find that the area is limited in three ways. First, existing research on SME e-business has largely focused on the developed world; not much is known from developing countries (Kapurubandara and Lawson, 2006). Second, current accounts of e-business failure tend to emphasise problems arising due to a lack of substance in business ideas, and in SME terms, issues associated with acquiring and maintaining the necessary resources, skills and technical expertise to keep the business going (Li, 2007). Finally, despite their diversity in business models and technology utilisation, the literature fails to account for SME e-businesses as idiosyncratic entities (Parker and Castleman, 2007). In this study, we acknowledge the difference between the 'pure' internet SMEs—dot.coms and the click-and-mortar and focus on the dot.coms. For instance whilst the latter

may easily switch back to full traditional business in case of e-business difficulties, the dot.coms may not have such flexibility.

Furthermore, the few studies from the developing world focus largely on adoption and diffusion and emphasise factors such as lack of infrastructure, inappropriate culture, lack of expertise and limited knowledge of owner/managers from the macro and/or meso levels of analysis (e.g., Travica, 2002; Jennex and Amoroso, 2002; Davis, 1999; Enns and Huff, 1999; Kapurubandara and Lawson, 2006; Ifinedo, 2006). Not much is known about post-adoption experience or e-business failure in developing countries. A rare notable exception is Al-Jaghoub et al. (2007) which sheds some light on the causes of a dot.com failure in one developing country, Jordan. In this paper, we draw upon an interpretive case study to further extend this body of work, taking a micro level and e-business post-adoption perspective upon a failed dot.com SME in Ghana. In short, we are interested in the challenges confronting dot.coms in Ghana as they appropriate ICT for their businesses. For the purpose of anonymity and confidentiality, we use pseudonyms for the company in question - 'BuyGhana.com' and its parent company - 'WebSolutions'.

The study is organised as follows: the next section briefly discusses issues raised in the literature regarding SME e-business and developing countries. Then, the research methods for conducting and analysing the case are presented. Description and analysis follow next. Finally, implications are drawn from the study and the conclusion is presented.

2.0 E-Business, SMEs and Developing Countries

The e-business concept was first introduced and defined by IBM as 'the transformation of key business processes through the use of Internet technologies' (Li, 2007). Since then e-business, in addition to its associated term, e-commerce, have been defined severally (Zwass, 1996; Wigand, 1997). Some authors (e.g., Turban et al., 2004; Molla and Licker, 2004) use the two terms: e-business and e-commerce interchangeably. For instance Molla and Licker (2004) define e-commerce as conducting one or more core business functions internally within organizations or externally with suppliers, intermediaries, consumers, government, and other members

of the enterprise environment through the application solutions that run on Internet-based and other computer networks.

In contrast, other authors (e.g., Jelassi and Enders, 2005; Laudon and Traver, 2003; Li, 2007; Lesjak and Vehovar, 2005; Saloheimo, 2005) distinguish between them. Jelassi and Enders (2005) for instance regard e-business as the use of electronic means to conduct an organisation's business *internally* and/or *externally* and e-commerce as a subset of e-business, which deals with the facilitation of transactions and selling of products and services online via the Internet or via any other telecommunication networks. For the purpose of this study, we draw on their definitions and therefore regard e-commerce as a subset of e-business.

The evolution of e-business from the mid-1990s is well documented (Li, 2007), Jelassi and Enders (2005) identify four periods. The first period, which they refer to as the grassroots of e-business, precedes the widespread adoption and diffusion of the Internet for commercial purposes. During this period technologies such as EDI were adopted to facilitate business-to-business transactions. The second period extended from the mid-1990s to early 2000 and was characterised by the widespread adoption and diffusion of the Internet for business purposes. In this period, there was mass belief in unlimited business potentials of Internet adoption and use for cost reduction, increase in customer benefits and profit realisation; these were however pursued at the expense of fundamental management practices (Porter, 2001) as investors and managers arbitrarily inflated market size for dot.com firms to attract potential shareholders.

Eventually, these practices began the third period which was characterised by the phenomenal dot.com crash (Li, 2007; Howcroft, 2001; Howcroft et al., 2001). The fourth period is the post dot.com crash era, which Jelassi and Enders (2005) refer to as the consolidation phase. During this period stakeholders had to reflect on the harsh reality and the reasons behind the spectacular e-business failures and how to return to fundamental business practices; since then, many of the firms that survived have become profitable following the steady recovery of the dot.com market (Li, 2007).

While this provides a good historical background for e-business it is only told from the developed world perspective. We do not know much about the evolution of e-business from the developing world perspective. Moreover, we are not also abreast with dot.com failures or post-adoption challenges for e-business in developing countries.

There is no universally acceptable definition for SME (Levy and Powell, 2005; Storey, 1994; Cloete et al., 2002). Indeed:

- The European Union defines SMEs as firms employing 49 – 250 people while the OECD classifies them as firms with 20-299 employees;
- In the United States, SMEs refer to firms with a workforce of less than 500;
- In South Africa, they regard as organisations with fewer than 250 employees;
- The World Bank classifies SMEs in Sri Lanka as firms employing fewer than 100 people (Kapurubandara and Lawson, 2006).
- In Ghana, SMEs are firms with fewer than 100 employees (Hinson and Sorensen, 2006).

In this study, we draw on Storey's (1994: 16) suggestion for authors to choose their own appropriate definition and on earlier SME studies on Ghana (Hinson and Abor, 2005; Hinson and Sorensen, 2006) to define SMEs as firms employing few than 100 people.

The SME sector is very important to the socio-economic development of all countries irrespective of the level of development (Unsal and Movassaghi, 2008). They form the largest percentage of businesses and contribute the most to employment, national income and export in most countries. Despite their limited access to financial, time and technological resources, in contrast to large organisations (Pollard and Hayne, 1988; Ballantine et al., 1998; Chang and Powell, 1998), SMEs are characterised by more flexibility in decision-making, structure and processes. This provides them a comparative advantage to pursue innovative business opportunities than large organisations (Keeling et al., 2000). This notwithstanding, SMEs are lagging behind large organisations in the adoption and utilization of e-business (Kapurubandara and Lawson, 2006; Johnston et al., 2007). Typical barriers for SME e-business uptake and strategic use include: owners' lack of e-business knowledge, resources and time to

implement; unfamiliarity with the Internet; preference for short-term returns; lack of access to external reliable support among others (see Chitura et al., 2008).

Developing country ICT research is still relatively limited (Mbarika et al., 2005) and that on SME e-business is even more scant (Molla and Licker, 2005b). Molla and Heeks (2007) argue that studies on e-commerce in developing countries tend to be conceptual, lack an empirical base, and are often based on mere assumptions that Internet access will enhance e-commerce in developing countries. Thus, such studies lack any proper interrogation with the local realities, owners, managers, employees and the challenges that such organisations face.

A number of challenges involved in the uptake and utilisation of e-business technologies in developing countries are reported in the literature (Molla and Licker, 2005a). These include: lack of appropriate telecommunication infrastructure, qualified staff, ICT support and low Internet penetration. Others such as lack of, or minimal reach of e-payment systems (Mbarika et al., 2005; Purcell et al., 2004; Hawk, 2004) and a preference for face-to-face shopping culture to online purchases with anonymous people are also put forward as consideration (Donner, 2007; Kapurubandara and Lawson, 2006; Duncombe and Heeks, 2002b; Duncombe and Heeks, 2002a; Molony, 2006). There are also inappropriate legal systems, lack of government support and unfavourable social and cultural context for online transactions (Molla and Licker, 2005a). Moreover, internet access is still expensive when compared with similar services provided in the developed (Mansell, 2001; Kapurubandara and Lawson, 2007).

A number of firms in developing countries have attempted to use the Internet for business, yet the development of profitable enterprises has proved challenging (Mbarika et al., 2005). Thus for SMEs in developing countries to reap significant benefits from e-business investment, they need to overcome the above challenges.

The literature on developing countries have been criticised for over-focusing on adoption and diffusion issues; thus neglecting post-adoption experiences (Molla and Licker, 2005b; Murillo, 2004; Pare, 2003). As we mentioned earlier, one study of note (Al-Jaghoub et al., 2007) has specifically focused on developing country SME e-

business post-adoption experiences and e-business failure in particular. In Jordan, Al-Jaghoub et al., (2007) found that despite the initial challenges that a small e-pharmacy faced and the entrepreneurial motivation from the owner/manager to break through the barriers it was forced to shut-down after a judicial court interpreted online sales as illegal advertisements of drugs. Thus for any SME e-business to succeed in developing country environment, all the necessary contextual factors should work together to provide a conducive environment (Al-Jaghoub et al., 2007). This study extends this new area of research by looking at post-adoption experiences of one e-tail firm in Ghana.

3.0 Research Methodology

This historical case study forms part of a larger ongoing multiple case studies into the challenges that SMEs in developing countries face in utilising e-business technologies. It follows the interpretive case study approach (Barrett and Walsham, 2004; Walsham, 1995). This case was selected for its interesting nature in that it provides an opportunity to offer rich insights into e-business failure in a developing country, an area of IS that is largely under-researched.

The fieldwork was conducted in Ghana between November and December 2008 by the first author in remote collaboration with the second author. In all, four participants were interviewed: the owner/CEO and the managers for marketing, distribution and operations departments. Participant selection was based on their role in setting-up and running the business before and during its closure.

The initial contact was made to the operations manager via a personal contact of the first author. This contact, a former student of the author, is the business development manager of Ghana-India Kofi Annan Centre of Excellence in ICT, an institute that provides IT training, workshops and seminars for organisations and individuals in Ghana and the rest of the West African sub-region and thus have a working relationship with BuyGhana.com. The operations manager then supplied the contacts for the other participants. Except the marketing manager who has setup another Web development firm, all the participants are currently working in the parent company, which is also wholly owned by the CEO.

The principal data sources were interviews (Walsham, 1995) and these were supported by company documents. All the participants were interviewed in their offices and each interview was taped recorded after gaining their consent. On the average, each interview lasted for two hours. Data collection came to end when it became clear that no significant concepts and themes were emerging from additional data collection—after reaching theoretical saturation (Eisenhardt, 1989; Strauss and Corbin, 1994). As this research was interpretive in nature, data collection and analysis were conducted simultaneously, with further rounds of analysis being conducted post data collection. Interviews were subsequently transcribed in Nvivo QSR, a software for managing and analysing qualitative data. The transcripts were later e-mailed to participants for review and follow-up interviews were conducted through e-mail and telephone. Detailed analyses were conducted through intensive reading to organise emerged concepts and themes to make sense out of the data. From this data set, we draw the interpretation given below.

4.0 The Case of BuyGhana.com

BuyGhana.com was established in 1999—a period that coincided with the dot.com boom in the developed world. It was championed by Web Solutions, which was one of the pioneer Web developing firms in Ghana. The parent company and BuyGhana.com were wholly owned by the same CEO and before shutting down, it had 12 full-time employees. Web Solutions capitalised on its Web competencies and those of the CEO to launch the e-tail Web site and provided all the necessary technical support. BuyGhana.com sold a number of assorted items that included dairy products, cereals, beverage, sugar, detergents and tin food and via the Web site. Within a short time after its establishment, the e-tail firm had expanded into new markets and could boast of some 100,000 hits per day not only from Ghana but also from other parts of the world including Europe, United States, Asia and other parts of Africa.

The rationale for the CEO to establish the e-tail firm was to explore the benefits of dot.com opportunities in Ghana as was done in the developed world. The following comment from him expresses his source of motivation for the e-business venture:

“If it was working in America and Europe why can’t it work in Ghana?
We thought the same conditions existed here since people did not have

enough time to move around to shop giving the busy working schedule of 8.00 am – 5.00 pm.”

The company was able to break even after one year of operation. The CEO noted that it was uncommon for e-tail firms to break-even within such short-period and this signalled significant profits would be realised in subsequent years. The other three managers also expressed similar optimism following the unexpected but positive performance after the first year.

The firm’s target customers were the working class in Ghana and nationals abroad. It was realised that due to their busy schedule and the traffic congestion, workers found it difficult to shop around in the city—the national capital. Moreover, public transport networks via buses or trains were not available at the time; one could waste a number of hours to reach shopping centres which are mostly located in the centre of the city. Given this, the CEO observed that the working class might welcome online shopping from homes and offices.

Due to the lack of credit card system or online payment facilities, BuyGhana dealt with were two categories of customers: account customers who deposited money with the company in advance and had their online account credited and then debited after online purchases; and pay-on-delivery customers who would order online and pay after delivery.

Given the cost involved in building or renting a warehouse and stocking items for online sales, BuyGhana.com did not stock the items it sold online. Items were rather sourced from the supplies who were the key wholesale distributors of the manufacturing multinationals in Ghana such as Unilever and Nestle. With this arrangement, the delivery team received online orders from customers before buying the items from the suppliers and then deliver them to the customers. Items were purchased from the suppliers at wholesale price and sold to the customers at online retail price. The difference between the two prices was the profit margin.

BuyGhana.com perceived itself as the market leader for e-tailing in Ghana. There were two other competitors who claimed to be e-tailors, but as the marketing manager

reported, these did not provide online brochures, catalogues and shopping baskets as did BuyGhana.com. Customers had to call on phone to order items and to pick purchased items from the firms' premises. In contrast, BuyGhana.com provided online brochures, catalogues and shopping baskets on the Web site and allowed customers not only to order online but have their orders delivered to them. Moreover, account customers could pay online. The following remark from the marketing manager illustrates how BuyGhana.com differentiated itself from its competitors: "for us you go online to order the items and have them delivered at the comfort of your home".

4.1 The Role of the CEO

The CEO had extensive experience in ICT and Internet technology. Before establishing the parent company he had worked in another Internet firm in Ghana where he acquired expertise in Web development, networking and Internet technology. The marketing manager noted that the CEO's rich background in ICT and his democratic management style contributed significantly to the successful setup and the smooth operations of the firm. Similarly, the operations manager described the crucial role that the CEO played to ensure smooth take-off: "at that time when we were doing Web development, the CEO was practically doing all the work; he is a software and Web developer, a network engineer and so on." His contribution was a key success factor for the initial success and subsequent operations. Indeed, all the other managers acknowledged this.

Before establishing both companies, the CEO had been attending conferences and workshops in Europe and the United States. From such conferences and workshops, he identified the e-business opportunity. He was also a board member for an international non-Governmental organisation (NGO) that was involved in championing ICT knowledge transfer to developing countries including Ghana. The NGO which was based in the UK had branches in other European countries. He thus got the opportunity to participate in a number of exchange programmes in countries such as UK, Germany and France. Officials of the NGO from Europe also visited Ghana a couple of times to share knowledge with their counterparts. It is thus fair to

say that the CEO was highly influenced by the dot.com hype in the developed world at the time.

4.2 Problems and Challenges

Although, BuyGhana.com faced a number of challenges it managed to find a way around most of them except the financial instability that hit Ghana from the late 2000 through 2001 and which eventually led to its closure. It did not face major challenges during the start-up. The technical support from the CEO and the parent company helped to overcome the few initial technical problems. The Web development team from the parent company initially drew on the good features from the Web sites of successful dot.coms such as Amazon and Ebay to develop the BuyGhana Web site. Although this facilitated the initial development, it was later realised that some of the incorporated features were not applicable to the local context. Based on the feedback from users, the team had to customise the site to meet the local conditions.

Another challenge that confronted the e-tail firm was the poor state of Internet infrastructure in Ghana at the time. The available bandwidth was low, connectivity was unreliable and Internet services providers could not be trusted. Further, Web site hosting was very expensive compared to similar services in the developed world. Consequently, BuyGhana decided to host its Website from the United States.

Furthermore, suppliers had no Internet access or Web presence. The lack of connectivity between the suppliers and BuyGhana made it difficult for the delivery team to monitor stock availability from the supplier's warehouses. Although BuyGhana had entered into agreement for the suppliers to advise them on stock-outs the latter failed to do so. The resulting problem was that customers could order online and by the time the delivery team went to purchase the items from the suppliers the might have ran out-of-stock. It was quite embarrassing for BuyGhana to inform customers that the items they had ordered were unavailable.

Another challenge for the poor location address system to support distribution. To date there is no post-code system in Ghana and house numbers and street names are unreliable. The city maps have not been updated since the colonial days to account for changes in development. Initially, BuyGhana.com requested for delivery address

during the online ordering process and these proved to be unreliable. Consequently delivery addresses were no more taken at the time of ordering. Customers would order and before delivery, the team would call the customers to ask for delivery location. This was not easy either; customers had to use landmarks to direct the delivery team to their homes or offices. A quote from the distribution manager summarises the problems encountered: “they will tell you come to ‘Adenata’ [a suburb of Accra, the capital of Ghana] and when you reach the Catholic Church ask for the Nero Cinema. Take the next junction on your right and count 3 houses you will then see the fourth house painted with a brown gate”. The team had no better alternative than to rely on the integrity of these customers. The manager noted: “sometimes it worked, a number of times it did not.”

Despite the above challenges, BuyGhana.com managed to find a way to deal with them if not to eliminate all. However, it could not manage the financial instability that hit Ghana from the late 2000 through 2001 and which eventually led to the failure of the business. At that time prices of goods and services increased so high that in the end the firm could not afford to sell below the suppliers’ wholesale price. Customers would order at the online-catalogued price but by the time the items were picked from the suppliers, the purchase prices from the suppliers would have doubled or even tripled. Thus the firm had no choice but to sell at the online-catalogued price which happened to be lower than the purchase price from the suppliers. They could not also convince the customer to pay more after the inflated purchase price. BuyGhana could not also afford to provide storage facilities to stock enough items for online sales. At the initial stage of the inflation, the CEO and management were hoping that the crisis would be temporal. When it turn out not to be so, the CEO had no better option that to close down the business to avoid more financial losses.

5.0 Discussion

The purpose of this study had been to understand ‘why’ and ‘how’ an e-tail firm in a developing country failed. A number of inhibitors for the adoption and utilisation of SME-e-business in developing countries have been discussed in the literature. Typical of such factors include poor ICT infrastructure, lack of owner/manager knowledge

and understanding of the e-business technology, low internet penetration among others (Molla and Licker, 2005b; Murillo, 2004; Pare, 2003). Although BuyGhana.com faced few challenges in system adaptation, the expertise of the CEO and the parent company helped to overcome such start-up problems.

Whilst a number of studies on SME e-business in both the developed and the developing world (Iacovou et al., 1995; Kapurubandara and Lawson, 2006; Al-Jaghoub et al., 2007; Van Akkeren and Cavaye, 1999) found owner/manager characteristics such as lack of awareness of the technology and lack of expertise to be the key barriers for SME e-business adoption and utilisation, our findings in this study indicate that the owner manager's expertise and knowledge rather contributed significantly towards the successful start-up and operation of the firm.

Moreover, the various developing country SME e-business problems discussed in the literature such as inadequate and reliable ICT infrastructure (Dedrick and Kraemer, 2001; Poon and Swatman, 1997); lack of online payment systems (Dedrick and Kraemer, 2001; Purcell et al., 2004; Mbarika et al., 2005); lack of critical mass of internet access among customers, suppliers and business partners (Lowry et al., 1999; Kartiwi et al., 2006; Kapurubandara and Lawson, 2006) were not too significant for the firm to fail; the financial instability rather led to BuyGhana's complete failure.

Earlier literature on dot.com failures in the developed world attributes e-business failures to improper business practices and investor's over-confidence in dot.com ventures (Li, 2007; Howcroft, 2001; Howcroft et al., 2001). However, from a developing country perspective, Al-Jaghoub et al (2007) found that it was rather lack of proper legal system that led to the failure of a small online pharmacy in Jordan after its online sales was interpreted as illegal advertisement of pharmaceutical products. Our findings also show that BuyGhana's could manage most of the the challenges it faced except the high rate of inflation which eventual led to its closure. Thus given the peculiar situations of the developing world, there is the need for more research into SME e-business challenges and failures in this part of the world.

6.0 Conclusion

A number of implications can be drawn from this study. First, developing country governments should not just encourage SMEs to adopt e-business technologies but also provide the favourable macro environments for existing dot.coms to survive and grow. Furthermore, given the current global credit crunch phenomenon, governments in both developed and developing economies need to pay special attention to SME e-businesses to ensure that these dot collapse due to the harsh economic environment.

Second, e-business practitioners ought to pay more attention to analysing the external macro environment and develop strategies to meet unforeseen challenges. Finally, the paper extends the limited research on e-business failure in developing countries. Al-Jaghoub et al (2007) found that lack of proper legal system in Jordan led to the closure of an e-pharmacy; our study shows that it is rather high financial instability that led to the failure of a small dot.com in Ghana. Thus more research is needed to provide insight into developing country SME e-business post-adoption issues in general and dot.com failure in particular. Further research is also needed on the impact of the global credit crunch on dot.com SMEs in both the developing and the developed world.

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