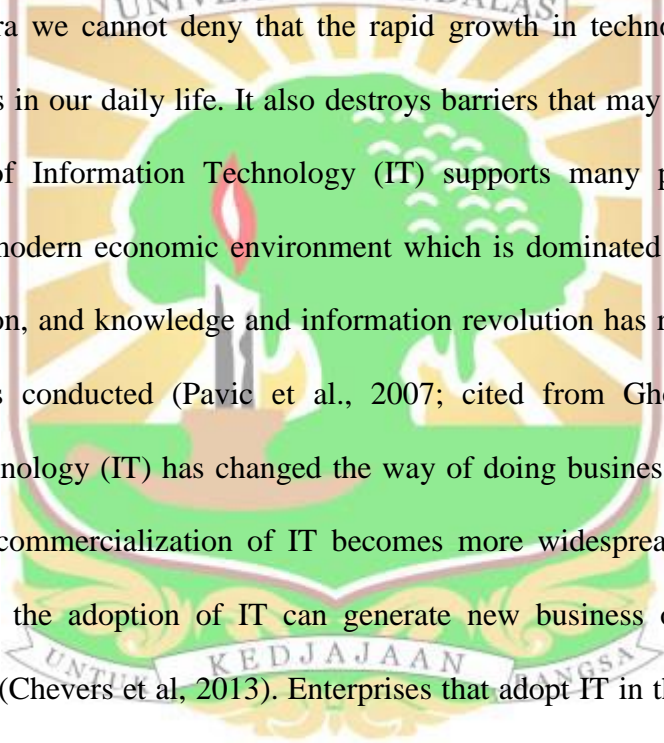# CHAPTER I

INTRODUCTION

This section will explain the background of the research, problem statement, objectives, and contribution of the study. This study is expected to understand factors influencing intention to adopt Information Technology (IT) in micro and small enterprises (MSEs).

1. 1 Background of The Research

In this era we cannot deny that the rapid growth in technology has broken many boundaries in our daily life. It also destroys barriers that may exist in business. The existence of Information Technology (IT) supports many parts of business operation. The modern economic environment which is dominated by globalization, hyper-competition, and knowledge and information revolution has revolutionized the way business is conducted (Pavic et al., 2007; cited from Ghobakhloo, 2011). Information technology (IT) has changed the way of doing businesses (Fong, 2011). Utilization and commercialization of IT becomes more widespread throughout the world, therefore the adoption of IT can generate new business opportunities and various benefits (Chevers et al, 2013). Enterprises that adopt IT in their operation are able to optimize their planning, control, collaboration and communication which also give them advantage in decision making process and strategies formulation (Fong, 2011).

IT is perceived as something new that is being introduced to members of a society for a certain period of time (Rogers 1995; Schon 1971 cited from Sarosa & Zowghi, 2003). IT adoption is defined as using IT to support operations, management, and decision making in the business productively (Thong & Yap 1996 cited from

Sarosa & Zowghi, 2003). Using IT in business can facilitate business operation and decision making. (Sarosa & Zowghi, 2003).

IT adoption was not only conducted by large organization or company, but also by small and micro enterprise (Sarosa & Zowghi, 2003). Due to limited resources of micro and small enterprises, IT adoption can be different between small and large business (Fink 1998; Thong 1999; Welsh & White 1981 cited from Sarosa & Zowghi, 2003). Small enterprises tend to have higher risk of failure than large corporations, several researches have noted several factor that can cause the failure of small enterprise such as lack of productivity, competitiveness, business and management skills, financing and access to proper advice and information, as well as lost of business development opportunities (Freland & Morris, 1976; Jennings & Beaver, 1997; Koh & Maguire, 2004; Koh & Simpson, 2005; Patterson, Kozmetsky, & Ridgway, 1983; Watson, 2003; Wichmann, 1983). At the same time, these smaller enterprises tend to be slow in adopting and exploiting IT which cause these smaller enterprise confront a lot trouble to enhance their sustainability (Fong, 2011).

Key success factors of IT adoption might be determined by top management support, skills of human, financial budget, government, customers' demand, environmental factors such as competition among other business and etc. One of key success factors of SMEs IT adoption is government support. AlGhamdi, Jones, and Nguyen (2013) noted that government support in Saudi Arabia as critical factors to facilitate small and micro enterprises in adopting IT. The research conduct by Doig (2000; cited from Alam & Noor, 2009) stated that the IT support which conducted by the Australian government enhances the market accessibility and flexibility of small-micro enterprises. And also the research conducted in Israel by Vinig et al (1998)

noted that the government support especially financial support would grow great intention to adopt IT for business operation. It also proven to attract investors to invest because IT based organization seems to promise for success of business.

External environment, such as competition, could stimulate industry to adopt IT (Hartono & Rahab, 2012). Due to the high level of competitiveness in business environment today, there is no choice for organization but to innovate for their survival on business. (Porter, 1990 cited from Hartono and Rahab, 2012). By adopting IT, businesses will be able to diffuse better in the environment which will lead them to compete easier or even alter the rules of competition (Hartono & Rahab, 2012). Julien and Raymond (1994) and Thong and Yap (1995) cited from Alam & Noor (2009) also confirmed that business will have intention to adopt technology if competitors or a whole business are adopting IT, and then small business is likely to adopt as well. Parker (1997) and Poon and Swatman (1996) studies from Alam and Noor (2009), found that small businesses are often forced to adopt and use IT due to competition pressure.
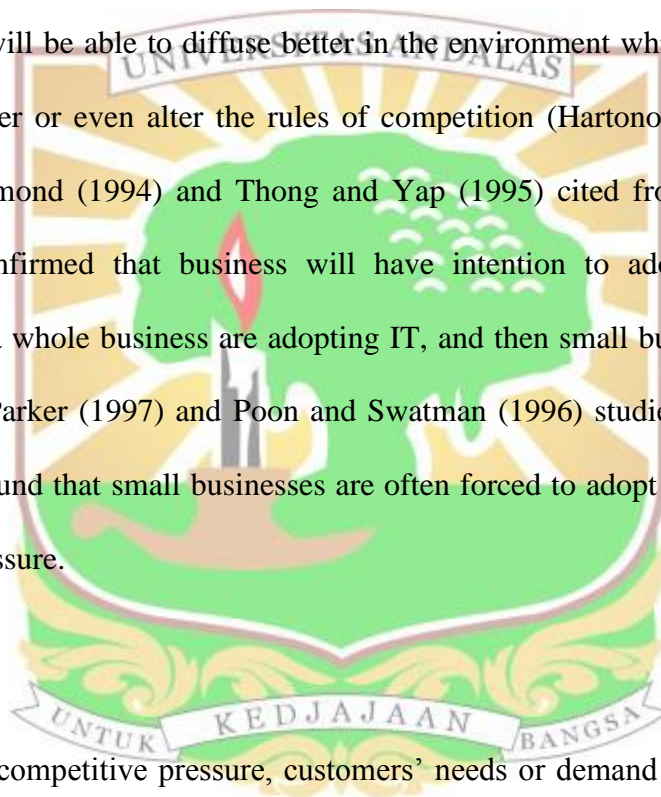
Besides competitive pressure, customers' needs or demand is also one of the factor that can influence industry to adopt IT (Ghobakhloo, 2011). Peters and Waterman (1982) identified staying close to customers, learning their preferences and catering to their needs as critical success factors for the organization (Dahlan, Jallaludin and Zailani, 2009). According to Kirby and Turner (1993) cited from Alam and Noor (2009) the dependency on customer is closely related as one of the factors that have pressure to adopt IT in business operation . Customers can drive the business by adopting IT (Roberts, 2009). When a major customer adopts IT , the

small business owner is more likely to adopt (Alam and Noor, 2009). The customer now needs better quality service that satisfies them in the little amount of time. Due to that reason, customer can categorize as one of the factor that influence the business to improve their performance. Based on the those fact, this research is aimed to analyze and determine how the government, competitive environment, and customers' needs can influence the intention of IT adoption in micro-small enterprise in Padang.

1.2 Problem Statements

In rapid dynamic environment, the company and organization has to adopt and survive with the changing. To strengthen their organization, they have to be flexible and responsive to the changing that happened. The use of IT in on this era cannot be avoided. The use of IT in on daily operation seems like obligation. This research want to investigate:

1. How does the government support influence the intention of IT adoption in micro-small enterprise?

2. How does the competitive environment influence the intention of IT adoption in micro-small enterprise?

3. How does the customer-oriented business influence the intention of IT adoption in micro-small enterprise?

1.3 Purposes of the Research

The purposes of the research are:

1. To examine how the government role influences the intention of IT adoption in micro-small enterprise.

2. To examine how the competitive environment influences the intention of IT adoption in micro-small enterprise.

3. To examine how the customer-oriented business influence the intention of IT adoption in micro-small enterprise.

1.4 Contributions of the Research

After analyze and examine the influence of government, competitive environment and customers' needs in micro-small enterprise to adopt IT, the result of this study will help and guide the organization which still confronting with the regarding issue might become the references to solve their problem and finding solution. And also, it will help the readers to understand more regarding the influencing factors and the result is applicable into professional working environment.

1.5 Scope of the Research

There are number of factors that can influence micro-small enterprise in IT adoption, the factors can come from internal or external. Those factors such as resources, financial budget, employee skills, organization culture, top management and etc, but in this research we will just focus on how the government, competitive environment, customer oriented business affect the intention of IT adoption in micro-small enterprise.

Larger enterprises usually already use IT in their business operation due to their capability of resources. The opposite things happen to small-micro enterprise, due to their limited resources, the intention to adopt IT is slower compared to larger organization. Even though, small-micro enterprise is the business, which have potential growth toward IT. The object of this research is small-micro enterprise in Padang. However, the researcher limits the sample only for the small-micro

enterprises in Padang who are going to adopt or already adopt IT in their business operation.

1.6 Outline of the Research

In order to make it easier and make moderate the forwarding of content, this research is divided into five chapter, they are:

CHAPTER I: Introduction

That is containing about background of the research, problem statement, and purpose of research, contribution of research and scope of research.

CHAPTER II: Literature Review

This chapter contains descriptions of theoretical variables that include the theories that support and underline the variables used in the research and framework.

CHAPTER III: Research Method

Explaining about research method which discussing about research design, population and sample, research variable, operational definition of variables and data analysis method.

CHAPTER IV: Result and Discussion

Explaining about validity and reliability test, analyzing the influence of government's support, competitive environment of business, customer-oriented business on intention to adopt IT in MSEs in Padang.

CHAPTER V: Conclusions, Implications, Limitations, and Recommendations of Future Research.

On this chapter will explain about conclusions of research, implications of research, limitations of the research and recommendations for future research.