An empirical analysis of the barriers to implementing e-commerce in small-medium sized construction contractors in the state of Victoria, Australia

Peter E.D. Love (School of Architecture and Building, Deakin University), Zahir Irani (Department of Information Systems & Computing, Brunel University), Heng Li, Eddie W.L. Cheng and Raymond Y.C. Tse (Department of Building & Real Estate, Hong Kong Polytechnic University)

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Abstract: To improve organizational performance and sustain a competitive advantage many Australian businesses have begun to embrace e-commerce. For example, businesses from the automotive, banking, insurance and retail industries have been able to leverage the benefits of information and communication technologies. Yet, those from the construction industry have been slow, perhaps even reluctant, to implement information and communication technologies to support e-commerce. Thus, this paper aims to determine the barriers that small-medium sized contractors are experiencing when confronted with the need to implement e-commerce to sustain their competitiveness. Unstructured interviews were undertaken with managers from 20 small-medium sized contractors from the State of Victoria in Australia, which had annual turnovers ranging from $1–50 million. The financial, organizational, technical and human barriers that were identified from findings are presented and discussed. The paper concludes by proposing strategies that small-medium sized contractors may adopt if they to leverage the benefits of e-commerce.

Key words: e-commerce, small-medium sized contractors, information and communication technology.

Introduction

E-commerce is revolutionizing the way that organizations conduct their business operations, and is set to have significant socio-technical implications (Currie, 2000). Whilst consensus on the revenue streams from e-commerce are unavailable, there remains numerous predictions on e-commerce growth rates. For example, the Forrester Research group (1999) suggests that e-commerce will double every year over a five-year period surging from US$43 billion in 1998 to US$1.3 trillion by 2003. Similarly, IDC (1998) have predicted that in 2001, e-commerce will represent 1% of all world trade. While in Europe, the Forrester Research group (1999) expects the UK and Germany to move into ‘hyper growth’ two years after the USA.

In light of the impact e-commerce is expected to have on organizations and its expected growth, much research has been directed to developing and/or redefining business models. For example, comprehensive discussions and comparisons of different business models used in e-commerce have been reported by Dickey et al., (2000), Shaw (2000) and Currie (2000). However, the impact that e-commerce has had is not restricted to strategic business planning, but also has tactical and operational
implications. For instance, issues surrounding privacy and security, ‘on-line’ transactions and payment, and software and hardware selection for different user population and business needs (O’Connor and O’Keefe, 2000; Banning and Tung, 2000; Warren et al., 2000).

The scope and application of e-commerce continues to grow, with business applications increasing. For example, within the construction industry Elliman and Orange (2000) and Anumba et al. (2000) describe e-commerce examples that support supply chain management, and include the development of information platforms for construction material exchange. Such systems support business-to-business as well as business-to-customers enterprise models. The implementation of these systems continues to grow in popularity, with examples including those developed by VHsoft Technology (detailed information of which can be found at www.vhcoma.com). Clearly there is much motivation by companies to embrace change while seeking improvements in performance. Such searches for efficiency and effectiveness gains are being facilitated by Egan (1998), who called for reducing the cost base of construction by a third, whilst improving quality. Elsewhere, the US Construction Industry Institute set targets to improve project cost and schedule levels by 20% (Tucker, 1997). In comparison, Australian initiatives identified the potential time saving of 25–40% by reducing nonvalue added steps in the building process. Hence, such targets are leading construction companies to investigate improvements to business performance, with e-commerce clearly seen as a means to support their ambitious goals, although its evaluation remains somewhat difficult (Irani and Love, 2000).

**E-commerce business models**

Fundamentally, e-commerce focuses on the electronic exchange of information using information and telecommunication infrastructures (particularly the world wide web (WWW) and the internet). Whilst there are many definitions of e-commerce, there are also many forms of e-commerce, for example Kalakota and Whinston (1997: p. 18) propose three types:

1) inter-organizational (business to business);
2) intra-organization (within businesses);
3) customer to business.

Industry sectors such as retail and banking have openly embraced e-commerce to improve their performance, and gain a strategic competitive advantage. While at the most basic level, e-commerce is simply about doing business electronically. The benefits of using the WWW and the internet to conduct business-to-business transactions and to sell products have been well documented (e.g., Gattiker et al., 2000). For example, e-commerce can reduce an organization’s costs, particularly across supply chains, improve customer service, create additional revenue streams and create new business relationships. In particular, McAdam et al. (2000) suggests that small-medium sized contracting organizations may benefit from sharing resources through an enhanced collaborative process. Cheng et al. (2001) suggests that the strategic decision to adopt e-commerce requires an organization to re-examine their business operations as well as their business relationships with customers and suppliers. Yet, the decision to embrace e-commerce may soon be a matter of survival and less strategic in nature.

Love and Gunasekaran (1997) suggested that interorganizational collaboration enabled by electronic information exchange and sharing, can create a competitive advantage for organisations that re-engineer their supply chains. In doing so, optimizing the benefits of collaboration as well as reducing risks associated with information technology (IT) implementation. However, Gulati (1999)
suggests that the benefits gained from the collaboration are dependent on the exchange relationship between organizations such as trust, interdependence and bargaining power.

While research has widely publicized the benefits of e-commerce, little attention has been given to the barriers that organizations face when confronted with the need to implement e-commerce to sustain their competitiveness. For example, business organizations in the construction industry have been slow, perhaps even reluctant, to implement information and communication technologies to support e-commerce (DIST, 1998). In addition, the Australian construction industry has been criticized for its poor performance and productivity in relation to other industries (DIST, 1998). This is often attributed to the fragmented nature of the construction industry, as no single organization can dictate and therefore be responsible for establishing and maintaining the necessary communication networks for a construction project. Consequently, this industry sector is faced with ineffective communication and information processes, which have inadvertently contributed to project cost and time overruns. Alty (1993) suggests that for projects to be procured successfully, construction businesses must communicate and exchange information more effectively by adopting IT. Indeed, Latham (1994) attributes the adoption of IT as an enabler in the reduction of project costs, which in turn provides competitive advantage.

Australian construction organizations are being encouraged to transform their business operations to conduct business transactions electronically in a ‘seamless supply chain’ (DIST, 1998). Yet, the traditional adversarial and low profit margined nature of the construction environment has created a reluctance to explore and implement new and different methods for performing business operations (Love et al., 2000). With this in mind, the authors of this paper propose to add to the body of literature by identifying the barriers that small-medium sized contracting organizations are experiencing when confronted with the need to implement e-commerce. In doing so, proposing strategies to overcome the identified barriers that exist within construction businesses.

Information and communication technology in Australia

Many small-medium sized firms find it difficult to compete in today’s competitive markets. Acknowledging this point Chan et al. (2000) and Wiele and Brown (1998) have propagated innovative strategies for improving work practices, and the quality of products/services. E-commerce has been wisely acknowledged as particularly useful for contracting organizations to revive their communication and co-ordination processes (Chan et al., 2001). However, the up-take of information and communication technologies by businesses in the construction industry has been very slow (DIST, 1998). This point has been reiterated by Love et al. (2000) who state that ‘contractors lag well behind other industries, some of which are allied’. It would appear that contractors have ignored emerging technologies that have the ability to provide significant performance improvements. Noteworthy, however, this is not the case for all contractors, as some embraced the Internet by adopting e-mail, remote login, file transfer protocol, intranet and extranet services.

Research undertaken by Love et al. (1996) found that contractors had simply used IT to automate existing processes. Love et al. (1996) stated that contractors reported that the associated benefits of IT adoption were simply reduced cycle times and thus increases in productivity. As a result, positioning such benefits as ‘operational’ within the taxonomy discussed by Irani and Love (2000). A similar study undertaken by Marosszeky et al. (2000) confirmed the findings of Love et al. (1996) and reported that some contractors had re-designed their business processes to leverage IT benefits, and hence achieved significant productivity gains. While there are some businesses leveraging IT benefits, most interorganizational applications of IT are confined to the automation of communications. For example, e-mail partially replaces ordinary mail, telephone and fax, and it is common for
CAD files to be e-mailed to and from consultants, and electronic fund transfer (EFT) automates payments among contractors. Such technologies have helped reduce cycle time and are now considered competitive necessities (DIST, 1998). Fundamentally, if businesses in construction are to leverage the full benefits of IT, then the way in which projects are procured needs to be restructured (Love et al., 1998). For example, network structures can be used to support the formation of interorganizational collaborative partnerships and the implementation of business-to-business e-commerce.

Tam (1999) and Deng et al. (2001) have both used a similar structure to support an intranet and extranet facility, which can transfer and exchange information within and between organizations involved in a project. The use of business-to-business e-commerce has been limited to only a few projects in Australia, such as, the Acton Peninsula National Museum in Canberra (Walker et al., 2000). It is noteworthy that the businesses involved in this project are some of the industry’s forerunners in the adoption of information and communication technology in Australia.

According to DIST (1998) the factors that tend to inhibit the adoption of information and communication technologies in construction include:

- resistance from management;
- tight profit margins which make it difficult to fund investment in an IT infrastructure;
- lack of IT awareness;
- lack of employee education and training;
- degree of organisational change required;
- a belief that the industry is doing well without IT.

Khalifa et al. (1999) suggest that one of the major barriers associated with the adoption of information and communication technologies is risk, which can be either perceived or real. Perceived risk is associated with the fear of the unknown, whereas real risk involves the actual physical risk to data transfer, authentication issues and the use of information. According to Khalifa et al. (1999) much of the risk associated with the adoption of e-commerce centres around perceived risk in the form of security, privacy, authentication and legal issues. In addition, the implementation of e-commerce may require organizations to re-examine their existing processes, systems and people (skills and training/attitude and behaviour) so that a culture of innovation can be stimulated (Lefebvre and Lefebvre, 1993, Irani and Sharp, 1997).

Dieterich (1998) then suggests that the small-medium sized enterprises (SMEs) face an evaluation dilemma, as the payback for investing in business-to-business or business-to-consumer e-commerce typically extends beyond 12 months. Consequently, many SMEs who require revenue generation are unable to outlay funds to support an e-commerce infrastructure. Many of the technological issues used to support e-commerce have been found to be confusing and not well understood by managers and employees of SMEs (Elliman and Orange, 2000). In addition, Elliman and Orange (2000) suggest that the adversarial and competitive nature of the business in construction is a barrier to implementing e-commerce inasmuch as there is a degree of uncertainty associated with formation of business partnerships and virtual organisations. It is noteworthy that by overcoming the barriers, parties are able to develop the necessary core values for e-commerce, which are those beliefs, practices and activities of the companies that demand an e-commerce environment. Hellsten and Klefsjö (2000) indicate in their proposed virtualized total quality management that core values form the direction for identifying the required techniques and associated supporting tools.

**Research approach**

Since the emergence of e-commerce there has been a tendency to focus on its benefits, successes and
technological issues rather than the barriers that businesses may encounter when implementing e-commerce. With this in mind, the research approach was exploratory in nature and therefore relied on the use of unstructured interviews. Fifty firms who were selected from the Yellow Pages in the southwestern state of Victoria in Australia were invited to participate in the research, which aimed to identify perceived barriers to implementing e-commerce. In total, 20 small-medium sized contracting organizations, which have annual turnovers ranging from $1 to $50 million (see Table 1) agreed to be interviewed.

### Data Collection

Unstructured interviews were conducted on a one-to-one basis with a Company Director and were open to stimulate conversation and to breakdown any barriers that may have existed between the interviewer and interviewee. The interviewee was allowed to talk freely without interruption or intervention, to acquire a clear picture of their perspective about their organization’s perceptions about e-commerce. Prior to the commencement of the interview, the interviewee was asked to describe their organization’s current level of information and communication technology adoption and indicate whether it was high, medium or low. Following this, the interviews aimed to gain:

- an understanding of the constructs that the interviewee uses as a basis for forming opinions and beliefs about e-commerce;
- an understanding of the problems associated with the implementation of information and communication technologies;
- the confidence of the interviewee, to overcome the reluctance to be truthful about an issue other than through confidentially in a one-to-one situation.

The researchers acted as a neutral medium through which questions and answers were transmitted. The researchers’ aim was to obtain objective data through maintaining the friction of an interesting
conversation, which avoided unbalanced questions and obtained bias-free data. In trying to clarify the respondent’s answers the researchers were careful not to introduce any ideas, which may form part of the respondent’s subsequent answer. Furthermore, the researchers were also mindful of the feedback respondents gained from their verbal and non-verbal responses. Hence, the researchers avoided giving overt signals such as smiling and nodding approvingly when a respondent failed to answer a question, which could lead to respondents withholding responses to later questions. The interviewees reviewed the notes from the interviews and their views were invited to ensure their accuracy.

Findings and discussion

Table 1 identifies the characteristics of contracting organizations interviewed (i.e., turnover, number of employees, and type of work), and the level of e-commerce (information and communication technologies) implementation in head office and on-site. It is worth noting that although there is no clear indication that the three characteristics have significant impacts on the level of e-commerce implementation, some general observations can be made:

- the higher turnover and number of employees the higher the level of e-commerce implementation;
- a contractor with a higher turnover is expected to bid for more projects or for larger projects, and thus may use IT to support competitive business practices such as the production of tender documentation and post contract administration;
- with more employees, a contractor may need to invest in developing a productive communication and coordination network, which is IT-based.

The barriers that were identified from the interviews have been categorized as follows: organizational, financial, technical, and behavioural. Figure 1 depicts the interdependency of these barriers. In addition, risk, uncertainty, change and knowledge were identified as the underlying factors that businesses considered as being the constraints to the introduction of information and communication technologies to support an e-commerce infrastructure.

Organizational barriers

The organizational barriers that were identified included the following:

- indirect or hidden costs;
- inability to quantify (financially) the impact of e-commerce;
- inappropriate investment appraisal techniques;
- myopic strategic planning;
- lack of employee knowledge;
- lack of an IT infrastructure;
- a reluctance to form collaborative partnerships; and
- a general reluctance to change the way business was undertaken.

It was generally perceived that firms did not want to change as they were not able to foresee the benefits that e-commerce offered. In fact, none of the 20 businesses interviewed had begun to embrace business-to-business e-commerce, despite the forthcoming introduction of electronic tendering for Government projects and the goods and services Tax (GST). Seventeen firms considered e-commerce to be simply an interactive web page. In fact, when probed about the idea of sharing information and knowledge using the internet there was found to be a general consensus that this would jeopardize their competitive advantage.

One interviewee did state that they would like to transform their business processes by developing
appropriate internal structures, systems and protocols to take advantage of web-based technologies. While the interviewee recognized the urgency to employ such technologies, the degree of change that was required to transform their business was considered to be too dramatic, at least in the short and medium terms. Essentially, this business like all others was heavily reliant on cashflow and thus, could not invest in technologies that would not bring about immediate benefits.

**Financial barriers**

The *financial barriers* that were identified focused on investment issues, such as:

- the cost of system requirements and maintenance;
- investment risk;
- amount of available credit;
- cost of training and education;
- losses in productivity;
- market uncertainty.

The firms were not aware of any techniques that could be used to evaluate the investment potential of e-commerce. In fact, it was generally found that the decision to invest in IT was based on a gut feeling. Interestingly enough, such conclusions are similar to those reported by Irani *et al.* (1999) and Irani and Love (2000) where case studies from the service and manufacturing sector were reported, respectively.

Businesses were asked to indicate the extent of IT being utilized at their head office and on-site so as to assess the potential for the use of e-commerce. Only six firms stated that their level of IT usage was of medium level. These firms did use e-mail to transfer CAD files, and general correspondences to clients and project team members. Low levels in this instance referred to simply using PCs for tasks such as word processing, fax and the like. Without ample investment in information and communication technologies small contractors will never be able to leverage the benefits of e-commerce. If
contractors evaluated their investments in information and communication technologies in a rigorous and systematic manner by taking into account the direct and indirect benefits and costs of implementation then they may be able to gain the financial and nonfinancial benefits offered by e-commerce.

**Technical barriers**
The *technical barriers* that were identified pertained to issues such as identifying the type of technologies that would match the organization’s business requirements, the types of software, lack of education and knowledge about system requirements, the risks associated with security and authentication. In addition, one contractor pointed out that if their information system was not aligned with the technologies adopted then this could result in loss of business and added costs. Therefore, the firm appointed an external consultant to make sure that the IT was aligned with the technologies being implemented. However, this can be costly, and may subject the organization to on-going costs, which they may not be able to afford. However, this might be explained as an evaluation problem that could be overcome if the firm were able to strategically think about how they could leverage the benefits of e-commerce in their marketplace. In this instance the firm may consider investing in a bespoke e-commerce system which is integrated with an IS that is responsive to environmental and organizational changes.

**Behavioural barriers**
The *behavioural barriers* that were identified focused on issues to do with the fear that jobs would be lost, reluctance to make changes in working habits, the requirement to undertake additional training and skill development, and the degree of uncertainty and change that technology instils in people. When people are confronted with change they naturally resist it and may need gentle persuasion to overcome the fear of the unknown, especially if it is technology related. As a result, it is important to identify and use appropriate channels of communication to ensure the workforce is informed of changes and its impact on their job functions. Otherwise, the grapevine might take over and support the development of a fear-based culture.

**Conclusions**
The adoption of new technology remains a lengthy, time consuming and complex process that requires substantial amounts of organizational capital. As such, the evaluation of information and communication technology remains an important process that requires careful management and control. The challenge facing companies is their positioning relative to customer needs, which requires inherent flexibility. Fundamentally the larger the organization, the more complex are its business operations which tends to result in higher levels of IT implementation. The results of the research presented in this study indicate that the level of e-commerce implementation has yet to mature in the small-medium sized contracting firms that were sampled.

This paper has identified that there are substantial barriers to implementing e-commerce, which can affect organizational performance at a micro and macro level. Yet, there remain several barriers to e-commerce implementation that can be categorized as technical, financial, organisational and behavioural. In addition, risk, uncertainty, change and knowledge were identified as the underlying factors that acted as constraints to the introduction of information and communication technologies to support an e-commerce infrastructure. In fact, none of the businesses interviewed had begun to embrace business-to-business e-commerce. The level of IT employed by these organizations was limited to CAD, e-mail applications and word processing.
While the research was limited to a specific region in Australia, it is suggested that many small-medium sized firms will face similar dilemmas. In making a start to overcome some of the barriers identified in this paper, the authors suggest that small-sized firms consider the following descriptive recommendations if they are to effectively leverage the benefits of e-commerce:

1) **Be clear on what kind of change is required:** e.g., a major shake-up versus moderate process improvement, slow versus rapid roll-out of technology; each involves different implications (from financial to structural); decide what approach is best from both a customer (internal and external) and competitive viewpoint.

2) **Plan:** schedule the project and do not skip steps that must occur throughout the development, implementation (rollout) and adoption process. This can be supported by setting out clearly defined objectives, critical success factors and responsibilities; focus on the detail and establish criteria.

3) **Pre-empt resistance:** managers need to respond to resistance; hook into what people have got to gain or lose by changing from adopting new technology.

4) **Prepare employees:** address the training, education and development of employees prior to initiating the change programme and adopting the technology. This will provide staff with the confidence and ability to overcome barriers to IT-related business process change.

5) **Communicate:** ensure communication is two-way e.g., establish feedback sessions, anonymous comment or suggestion slips, open dialogue; identify how information should be cascaded throughout the organization and do not use the grapevine.

6) **Ownership:** recognize that people are much more inclined to support what they help to create (stakeholders) and resist what is forced upon them.

7) **Avoid complacency:** create an environment where people are dissatisfied with the status quo; drive people out of their comfort zone; shock treatment, where rapid change is required, creates urgency and momentum.

8) **Set your sights on the specific objective:** for example, is the aim to be first to adopt X technology through e-commerce, to gain Y% market share.

The authors of this paper believe that by identifying the barriers to e-commerce, small-medium sized firms may be better positioned to respond to the problems and challenges that they might encounter in its implementing.

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