ABSTRACT

Institutional theory has emerged as a powerful explanation to account for the influence of external institutions on organisational decision-making and outcomes. The Tirupur Small and Medium Enterprises (SME) cluster of Indian knitwear garment industry has a matured institutional structure that plays a major role in motivating the Enterprise Resource Planning (ERP) adoption. However, the penetration of ERP in the knitwear garment industry is low. Shang and Seddon (2004) proposed that Enterprise System (ES) benefits change (increase and decrease) in response to internal and external triggers, and these changes bring additional benefits and problems. Therefore, this study proposes to investigate the institutional isomorphic pressures on ERP adoption and how it is altered by the mediation of perceived benefits, challenges of ERP and organisational complexity.

The rationale behind this investigation is that industrial clusters will have a different rate of adoption compared to the larger industry population outside the cluster. A study on ERP adoption in SMEs requires attention because the issues of the SME’s are different from the large
organisations. The motives that drive ERP adoption are unique and therefore need to be understood independently for a better penetration of ERP system.

Studies using Technology Acceptance Model (TAM) and Diffusion of Innovation (DoI) for ERP adoption have not considered the influence of economic and institutional factors that the SMEs face as a result of the inherent economic challenges, organisational size and institutional pressure. A little research work has been executed on IS adoption by SMEs. The extant models do not address the characteristics of SME’s and relationships among the motivational factors. Developing on the fundamental motivation process, it is proposed that the driving force in ERP adoption can be identified as the institutional isomorphic pressures and the decision to adopt ERP is affected by the evaluation of benefits, challenges and the organisational complexity that create a need for the product. ERP adoption is the behavioural outcome of having adopted the ERP system or not.

To validate the model empirically, a survey method using a self-administered questionnaire was used to collect data. The survey instrument was developed by adopting the standard instruments. All the items were measured on a five-point agreeableness Likert scale. The SMEs of Tirupur knitwear garment cluster was considered as the population of the study. Dillman’s (2007) tailored survey methodology was used. By mail survey
and a multiple contact mode, 229 responses were received. The data were prepared for the Structural Equation Modelling (SEM) analysis. The measurement model was first tested and then the structural model was analysed for the path coefficients and the goodness of fit. Since the research model proposes to measure the multiple mediating effects simultaneously, AMOS (Analysis of Moment Structures) that implements the direct and indirect effect analysis was used.

The institutional isomorphic pressures on the firms are perceived and factored on the agents of the pressure unlike the mechanism of pressure as theorised in prior studies. The pressure from customer, trade associations and peers are more compelling than the supplier and the governmental pressure. The perceived benefits show that the industry is more aware of the operational benefits from the automation perspective. They are less aware of the strategic benefits. Among the perceived challenges, people challenges were felt more. This study has found out that the perceived benefits and perceived challenges play a mediating role between adoption of ERP and institutional isomorphic pressures motivated by adoption drives. Therefore, for a better adoption rate, the vendors and consultants should organize to increase the awareness of the challenges and benefits of adopting ERP. This study recommends that mere institutional isomorphic pressures cannot increase the ERP adoption and the mediating factors need to support the
pressure. This study has also found that the organisational complexity influence the perceived challenges which in turn influences the perceived benefits. Hence, this ascertains that there is a need to work on the risks and barriers to reduce the perceived challenges. Although the implementation of ERP is complex and costly, the corporate may actively adopt and engage in ERP implementation, if perceived benefits exceed perceived risks and costs.

This study contributes to the knowledge from a different perspective by exploring the mediating role of the motivating variables of ERP adoption. To the field of research it contributes by way of the multiple mediator analysis using the SEM and the bootstrapping method. To the practitioners, it creates an understanding of the mediation effect of the perceived benefits and challenges on the institutional isomorphic pressures and helps in interpreting the response strategy of the firms towards ERP adoption. The research analysis does not take into account the other adoption theories such as DoI, Absorptive Capacity, TAM etc., into the framework. However, the study can be extended by including certain other adoption and diffusion models. The mediation analysis could also be cross-validated using other statistical techniques.