

# SME's Perceptions of B2B E-Commerce

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## INTRODUCTION: BACKGROUND OF ORGANIZATIONS

The primary objective of this study is to examine the effects of the Internet's Web tools (the level of Web content and the level of security on the Internet) on the interorganizational relationships (IOR) between small and medium-sized enterprises (SMEs) and their loyal customers.

This article focuses on B2B electronic commerce because according to a recent report, the value of goods and services sold via B2B electronic markets will reach \$2.7 trillion by the year 2004 (Gartner Group, 2000). While these figures give the impression that B2B electronic commerce is expanding fast, the fact remains that many SMEs are still sitting on the sidelines (Caldeira & Ward, 2002; Lam, Shankar, Erramilli, & Murthy, 2004; Teo, Wei, & Benbasat, 2003). Many SMEs that maintain IOR with their customers have difficulties achieving the benefits as suggested by media and early research (Lituchy & Rail, 2000; Poon, 2000; Tagliavini, Ravarini, & Antonelli, 2001). In addition, there is little existing research that has empirically tested the impact of the Internet's Web tools on IOR which lead to customer loyalty.

## The Study Sample

The sample consists of 1700 SMEs in the USA and Canada, each having a Web site and an e-mail address. Company size is measured by number of employees (Chow and Holden, 1997). In this study, an SME is one with less than 500 employees. The senior sales representative, company executive, or president of each of the above companies was sent a cover letter through the Internet (by e-mail) along with the URL of the Web site containing the research instrument (questionnaire). As an incentive, respondents were told that a summary of the results would be sent at their request. A total of 386 SMEs responded, producing a 22.7% response rate. The response rate achieved is acceptable, given the length of the research instrument, the technical and confidential nature of the information requested and the nature of the respondents.

## Characteristics of Participating SMEs

The respondents were spread across 10 different industry sectors. Seventy-four percent (74%) of the respondents were primarily involved in Manufacturing, Information Technologies Hardware/Software, and others sectors. In terms of annual sales volume, 40% of the sample had annual sales of less than \$1 million, while 42% had annual sales between \$1 and \$10 million and 18% don't want to share that information. About 40% of the SMEs had less than 10 employees, while roughly 42% had less than 50 employees. Approximately 14% of the SMEs possess between 50 and 500 employees. Only 4% possess more than 500 employees.

Most of the participating SMEs (about 64%) have been in business for more than 10 years, while 32% have been in business between 1 and 9 years. A total of 75% of the respondents claimed to have had a company Web site in existence for 1 to 6 years, while 18% of SMEs claimed to have been online for less than one year. A total of 81% of the SMEs have 10% of their budget invested in Web site development and/or maintenance, while 7% of SMEs invested between 11 and 30% of their budget in online resources. Only 2% of SMEs invested more than 50% of their annual budget in Web site development and/or maintenance. In terms of location, 18% of SMEs are located in the western part of North America; the same percentage is located in the eastern part; while 9% does business in the southern part, and 43% in the northern part of North America. The rest of SMEs (12%) is spread across other regions.

## THE THEORETICAL RESEARCH MODEL AND HYPOTHESES/ DESCRIPTION OF E-COMMERCE

The use of Internet technology to link SMEs to their customers can be demonstrated to have an effect on their loyal customer base. The Internet's Web tools, such as the level of Web content and the level of security on the internet, can support the formation and maintenance of

IOR because they facilitate the way organizations cooperate with, depend upon, and trust each other. The quality of a Web site can directly influence the type of relationships developed between SMEs and their loyal customers.

The key constructs of the research model, identified through the objective of this article, are as follows: the dependent variable will be drawn from customer loyalty construct, the independent variables will be drawn from the IOR construct and the moderating variables will be drawn from the Internet's Web tools construct.

## Customer Loyalty

In this article, loyalty is defined as building and sustaining a trusted relationship with customers that leads to the customers' repeated purchases of products or services over a given period of time (Gefen, 2002; Lam et al., 2004). Customer loyalty, in general, increases profit and growth in many ways to the extent that increasing the percentage of loyal customers by as little as 5% can increase profitability by as much as 30% to 85%, depending upon the industry involved (Gefen, 2002).

## IOR from SMEs Perspectives

In this study, an IOR is defined as the process whereby an SME builds long-term relationships with current customers so that both seller and buyer work toward a common set of specified goals (Evans & Laskin, 1994).

Trust is a critical factor in any IOR in which the trustor does not have direct control over the actions of a trustee, and there are possible negative consequences of one party not fulfilling its obligations (Jarvenpaa & Tractinski, 1999). IOR are built around interactions and can be characterized by a tension between autonomy and interdependence, between team loyalty and individuality, and between competition and cooperation (Nouwens & Bouwman, 1995). The primary goal of an IOR is to achieve a competitive advantage via mutual loyalty in relation to companies outside their network. Therefore an IOR is heavily dependent upon relationships based on cooperation, interdependence and trust. They are discussed in the following:

1. **Cooperation:** It is defined in this study as coordinated actions taken by parties to achieve mutual outcomes (Lewin & Johnston, 1997). Cooperation promotes effective relationship success. Cooperation is proactive because it suggests actively agreeing to advertise a partner's products.
2. **Interdependence:** Parties involved in an IOR become interdependent when there are significant

switching costs associated with replacing the incumbent suppliers (Lewin & Johnston, 1997). Interdependence is an important relationship variable (Reichheld & Scheffer, 2000). A loyal customer will remain with a vendor because the cost of switching to another vendor is too high (Reichheld & Scheffer, 2000).

3. **Trust:** Trust is a willingness to rely on an exchange partner in whom one has confidence (Berry, 1995). Becoming a trusted partner of a customer is a key to maintaining IOR. Trust can be achieved by providing the customer with valuable information using a high quality Web site.

## Internet's Web Tools

There is an existing need to investigate the tools that make a Web site effective for B2B electronic commerce. According to Dholakia and Rego (1998), the Web possesses several tools that effect the electronic commerce system, including: (1) the Web is an easy and inexpensive way to advertise, lowering the barriers to entry for SMEs; (2) the Web overturns the traditional hierarchical system of distribution channels, that is, former channel partners become competitors in the global marketplace; (3) unlike traditional means of communication, such as newspapers or television, the Web gives the customer control of choosing and processing information about the firm; (4) the breadth of the medium allows wider availability, accessibility, and selection of hard-to-find products/services (Dholakia & Rego, 1998). The Internet's Web tools range from simple associatively linked collections of static hypertext documents to interactive, integrated, customizable solutions and agent-based negotiation support (Gefen, 2002); and since the Internet's Web tools were initially developed to address the development of B2C transactions, they can also be effectively applied in B2B settings as well (Gebauer and Scharl, 1999). There are essentially two variables that encompass the construct of the Internet's Web tools: the level of Web content and the level of security on the Internet.

1. **The Level of Web Content:** The level of Web content is defined as the new Internet-based channels through which SMEs can display information about themselves and the products and services they offer or, better yet, as a dynamic interactive portal (Joseph, Cook, & Javalgi, 2001).
2. **The Level of Security on the Internet:** The level of security on the Web is defined as the risks associated with Web technology assets such as loss, disruption, and unauthorized access of information, data, and Internet resources (Cavusoglu,

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