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Chapter I

Introduction

In this chapter we introduce the motivation for the study and discuss the background of inter-organizational trust, followed by significant prior research leading to a rationale of this study. Then we discuss previous research in e-commerce adoption, its history, growth, and an analysis of the factors that drive and inhibit e-commerce adoption. E-commerce is the sharing of business information, maintaining business relationships, and conducting business transactions by means of telecommunications networks (Zwass, 1996:3). E-commerce applications facilitate communication and information exchanges between organizations, thereby enabling mass manufacturing, production, and customization to occur (Giaglis et al., 1998). E-commerce is changing the shape of competition, the dynamics of trading partner relationships, and the speed of fulfillment (Kalakota and Robinson, 2001).

In this study, a trading partner is considered to be an organization which engages in business-to-business e-commerce. Trading partners can play various roles of suppliers, merchants, brokers, or customers. They interact with one another to form Inter-organizational relationships (IOR's). To avoid the possibility of anthropomorphizing the organization, and inferring that the trustor is an organization, inter-firm trust is viewed as the collectively held cognitive belief of a group of well-informed individuals within a firm (Zaheer, McEvily, and Perrone, 1998). Thus, in this study the terms *trading partner trust* and *inter-organizational trust* are used interchangeably.

Internet use for business-to-business e-commerce is expected to grow at a spectacular rate. According to Forrester research (2001), the projections for business-to-business e-commerce predict that sales over the Internet will skyrocket to $2.7 trillion by the year 2004. Network communications over the Internet have offered tremendous market potential for today's e-commerce businesses (Applegate et al., 1996; Bakos, 1998; Nath et al., 1998; Kalakota and Robinson, 2001). The benefits of business-to-business e-commerce include global connectivity, high accessibility, scalability, interoperability, and interactivity (Keen, 1999; Nath et al., 1998; Raman, 1996; Turban et al., 2000; Rayport and Jaworski, 2001). The importance of trust in e-business has been widely touted by practitioners and academicians alike (Heil, Bennis, and Stephens, 2000). Even if trust has been traditionally associated with successful buyer-seller relationships (Barney and Hansen, 1994; Bromiley and Cummings, 1995; Doney and Cannon, 1997; Geyskens, Steenkamp, and Kumar, 1998), trust has recently been regarded as the foundation of the digital economy (Keen, 2000).

BACKGROUND OF INTER-ORGANIZATIONAL TRUST IN E-COMMERCE

E-commerce involves the use of computers and telecommunications in routine business relationships. It mostly affects the organizations' operations and daily relationships with their suppliers, customers, banks, insurers, distributors, and other trading partners. The close coupling between buyers and suppliers (sellers) forms inter-organizational relationships. Although most popular accounts of e-commerce focus on business-to-consumer e-commerce, business-to-business e-commerce is becoming key in inter-organizational relationships (Clarke, 1997; Hart and Saunders, 1998; Keen, 2000). Kalakota and Robinson (2001) suggest that virtually every business today is stretched to the limit, while attempting to maintain viability and profitability in the face of unparalleled uncertainty and change. E-commerce introduces an element of additional complexity into inter-organizational relationships (IOR) (Hoffman et al., 1999).

Today's networked economy is notably characterized by the impersonal nature of the online environment and the extensive use of IT, as opposed to

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