

# Chapter I

## SME B2B E-Commerce and Customer Loyalty Revisited

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### ABSTRACT

*Business-to-business (B2B) electronic commerce is an important opportunity for small and medium-sized enterprises (SMEs), providing increased competition on a global scale and allowing them to access wider markets. SMEs' B2B electronic commerce success is tied to the ability to foster inter-organizational relationships and customer loyalty. However, this is not always true because many SMEs have difficulty achieving B2B benefits as suggested by media and early research. This study is an empirical examination of the effect of Web tools on the inter-organizational relationships (IOR) between SMEs and their loyal customers. Data collected from 386 SMEs in North America (United States and Canada) and processed with partial least square (PLS) show that the use of Web tools (which include the level of Web content and the level of security on the Internet) has a positive effect on the relationship between cooperation and interdependence and customer loyalty. However, the effect of Web tools on the relationship between trust and customer loyalty is different because the use of nonsecure Web tools reduces the effect of trust on customer loyalty, and surprisingly, the use of secure Web tools does not increase or decrease the effect of trust on customer loyalty. This research also suggests that one of the factors of the failure or success of SMEs' B2B e-commerce is the technical skills of the managers in the use of secure Web tools—high skill levels increase the positive effect of trust on customer loyalty. The implications of the results for the study are discussed.*

### INTRODUCTION

The Internet serves as an intermediary between buyers and sellers for business-to-business (B2B)

transactions (Otim & Grover, 2006). One of the most recent applications of Internet technology involves small and medium-sized enterprises (SMEs). SMEs account for the majority of busi-

nesses in the USA, employing more than 52% of the private workforce, contributing 51% of gross domestic product and providing two-thirds of all new jobs annually (Levenburg & Klein, 2006). It is no surprise that B2B electronic commerce has received so much attention from entrepreneurs, executives, investors, authors, scholars, and business observers (Porter, 2001). However, while anecdotal evidence and empirical results give the impression that B2B electronic commerce is expanding fast, the fact remains that many SMEs are still sitting on the sidelines (Daniel & McInerney, 2005; Teo, Wei, & Benbasat, 2003).

Since the late 1980s, a growing number of studies on inter-organizational networks have been conducted. One of the primary benefits of such networks is their potential to transform inter-organizational relationships (IOR) (Li & Williams, 1999). Web tools represent one type of inter-organizational network. In this chapter, IOR refers to relationships between SMEs and their customers which are also organizations, quite probably SMEs. Reichheld and Schefter (2000) stress that loyalty via relationship development and improvement is necessary or even the best-designed electronic commerce model will collapse.

Another determinant of customer loyalty is the degree of trust that customers have in the vendor (Reichheld & Schefter, 2000)—trust is important in managing IOR (Komiak, Wang, & Benbasat, 2005). The use of Web tools may have an effect on the relationship between trust and customer loyalty because trust is a precursor to customer loyalty. Trust is a willingness to rely on an exchange partner in whom one has confidence (Berry, 1995). Becoming a trusted partner is key to maintaining IOR. Trust can be achieved by providing the customer with valuable information using a high quality Web site.

Anecdotal evidence shows that the Internet can enable an SME that is involved in an IOR with a customer to globalize and to achieve a multimillion dollar turnover in a couple of years (Poon,

2000). However, such success stories are not widespread. Many SMEs have difficulty achieving the benefits suggested by media and early research (Poon, 2000). In fact, many SMEs have failed to follow the robust technical standards needed to make electronic IOR practice economical (Dai & Kauffman, 2001; Daniel & McInerney, 2005). In addition, there is little existing research that has empirically tested the effect of Web tools on IOR which leads to business partnership/customer loyalty. The primary objective of this study is to examine the effects of Web tools on the IOR between SMEs and their loyal customers/business partners.

This chapter is organized as follows: In the second section, we present the literature review. In the third section, we present the theoretical research model and hypotheses. In the fourth section, we introduce the methodology. In the fifth section, we present analysis and results. In the sixth section, we outline the discussion. In the seventh section, we identify the limitations. In the last section, we draw conclusions and recommendations.

## **LITERATURE REVIEW**

B2B electronic commerce has progressed from the early days when it was used for aggregating buyers and sellers, and it now offers multiple functionalities (Wang & Archer, 2004). B2B exchanges have been significantly affected by the evolution of the Internet (Park & Yun, 2004). Several perspectives have been identified in the literature in assessing the importance of B2B electronic commerce transactions. A relational perspective views transactions as a mechanism to foster inter-organizational relationships (IOR) (Gengatharen & Standing, 2005). B2B electronic commerce creates a virtual marketplace that lowers buyers' cost to acquire information about services and products and reinforces IOR through service delivery (Otim & Grover, 2006).

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