

## Chapter 5.6

# An Empirical Investigation of the Role of Trust and Power in Shaping the Use of Electronic Markets

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### **ABSTRACT**

This chapter discusses the role that social relational characteristics, such as trust and power, play in shaping the use of a particular type of e-business application—electronic markets (EM)—to support exchange relationships with suppliers that exhibit predominantly transactional characteristics. The analysis is based on a case study of an EM in the electricity sector. The study finds that the EM is used to take advantage of a superior power position, in order to achieve cost reductions, breeding mistrust and eroding the suppliers' bargaining power. The findings support the argument that social relational characteristics, such as trust and power, are significant factors in shaping the use of EM in transactional-oriented relationships.

### **INTRODUCTION**

The rapid commercial adoption of the Internet in the mid-1990s has been one of the most dramatic changes for organizations in the recent history. Since the invention of the Mozaic browser in 1993, businesses have encountered a range of opportunities to use the emerging Internet to support communication, commercial transactions, business processes, service delivery, learning and collaboration. The Internet enables the creation of new forms of interactions between organizations and new kinds of social relationships (Evans & Wurster, 1999) leading to profound social changes in the way organizations operate (Castells, 2000). This chapter addresses the social implications of the Internet on the way organizations manage their interorganizational relationships.

The use of Internet to support the buying and selling of goods and services, to service customers

and to collaborate with business partners, to enable learning and knowledge sharing both within and outside the organizational boundaries, as well as to conduct electronic transactions within an organization has been coined with the term “e-business” (Turban, King, Viehland, & Lee, 2006). The impact that the adoption of e-business has on the nature of interorganizational relationships has been studied extensively in existing literature from an economic perspective. The first studies in this area have adopted a transaction costs economics (TCE) stance (Clemons, Reddi, & Row, 1993; Malone, Yates, & Benjamin, 1987), and, by and large, the following research has followed the TCE tradition emphasizing the impact that e-business has on the transaction costs and risks (Bakos, 1998; Orman, 2002). The social implications of e-business, in terms of changes in the social nature of interorganizational relationships, have become only lately part of the e-business research agenda.

However, even before the advent of the Internet, information systems (IS) research identified social relational attributes issues, such as power and especially trust, as crucial in shaping the use of IS between organizations (Hart & Saunders, 1998; Kumar & van Dissel, 1996; Meier, 1995). In an e-business context, the majority of studies that address the social relational implications of e-business use focus on trust rather than power.<sup>1</sup> In the context of Internet based EM, which is a particular type of e-business application, existing studies on trust and power tend to focus on collaborative exchanges, characterized by high levels of trust and resource dependency (Christiaanse, van Diepen, & Damsgaard, 2004; Markus & Christiaanse, 2003). The implications that EM has on relational trust and power in transactional-oriented exchanges remain largely unaddressed by current research.

The objective of this chapter is to identify the role that trust and power play in shaping the use of EM to support exchange relationships with suppliers that exhibit predominantly transactional

characteristics.<sup>2</sup> This objective is achieved through an in-depth study of the use of EM in a multiutility company (Utilia). The study contributes towards understanding the role that e-business technologies play in shaping the social nature of interorganizational relationships.

## **BACKGROUND**

### **Definitions**

This chapter focuses on the use of a particular type of Internet-enabled application—EM—to support interorganizational relationships with suppliers.

Organizational research generally differentiates between two types of buyer-supplier relationships: transactional, or arms-length relationships, and collaborative, or obligational relationships. The former are characterized by low interdependence, short-term commitment, prearranged terms and conditions in a written contract, narrow communication channels, low trust and low asset specificity. In contrast, the latter are characterized by strong interdependencies, high levels of trust and commitment, long-term span, high transaction costs, terms and conditions loosely specified and high asset specificity (Morgan & Hunt, 1994; Sako, 1992). Transactional relationships, therefore, can be characterized as economic exchanges, concerned with the economic exchange of goods and/or services between parties. Collaborative relationships involve economic as well as social exchanges, such as interdependencies, friendships, closeness and trust (Easton, 1997) and are referred to in the literature as relational exchanges to differentiate them from the purely transactional exchanges (Lambe, Wittmann, & Spekman, 2001).

This study follows Bakos (1998) in defining EM as an online marketplace where buyers and sellers meet to exchange goods, services, money or information. According to Bakos’ interpretation,

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