

## Chapter 4.6

# Interorganizational Relationships in the Context of SMEs' B2B E-Commerce

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### ABSTRACT

Electronic commerce on the Internet has been discussed in literature as an interorganizational information system that can provide a strategic advantage via customer loyalty to small and medium-sized enterprises (SMEs). However, that is not always true, because many SMEs have difficulties achieving the benefits, as suggested by media and early research. This study is an empirical examination of the impact of the Internet's Web tools on the interorganizational 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 (i.e., the level of Web content and the level of security on the Internet) has a positive impact on the relation between cooperation and interdependence, and customer

loyalty. However, the impact of the Internet's Web tools on the relation between trust and customer loyalty is different, because the use of nonsecure Web tools reduces the impact of trust on customer loyalty, and surprisingly, the use of secure Web tools doesn't increase or decrease the impact of trust on customer loyalty. The implications of the results of the study are discussed.

### INTRODUCTION

Business-to-business (B2B) electronic commerce is open electronic platforms facilitating activities related to transactions and interactions among multiple firms (Grandon & Pearson, 2004; Wang & Archer, 2004). B2B electronic commerce has progressed from the early days when it was used for aggregating buyers and sellers to today when it offers multiple functionalities (Wang & Archer,

2004). B2B exchanges have been affected significantly by the evolution of the Internet (Park & Yun, 2004). One of the most recent applications of computer technology involves the Internet in the area of small and medium-sized enterprises (SMEs). The Internet has stimulated business owners to rethink their business strategies and also offers a new way for SMEs to compete more effectively (Daniel & McInerney, 2005).

Electronic commerce has an important influence on SMEs' ranges of activities, providing increased competition on a global scale and allowing them to access wider markets (Tagliavini, Ravarini, & Antonelli, 2001). Because of that influence, American SMEs have been entering the world of B2B electronic commerce in large numbers as both developers and beneficiaries of the systems that are revolutionizing business practices (US SBA, 2000).

This article focuses on B2B electronic commerce because more and more B2B electronic commerce has begun to facilitate interorganizational relationships (IORs) between SMEs and their customers. Starting with the automated order entry system in the mid-1970s and EDI, computer technology has facilitated communication among organizations involved in IOR (Park & Yun, 2004). The Internet use in industrial purchasing is not limited to particular industry types or certain firm sizes (Park & Yun, 2004). It is happening in the high-tech, aerospace industry as well as in agricultural and dairy industries (Park & Yun, 2004). Also, companies of various sizes, from industrial giants to small startups, are conducting Internet-based B2B e-commerce (Park & Yun, 2004). While those anecdotes give the impression that B2B electronic commerce is expanding fast, the fact remains that many SMEs are still sitting on the sidelines (Teo, Wei, & Benbasat, 2003; Daniel & McInerney, 2005). It is no surprise that it has received so much attention from entrepreneurs, executives, investors, authors, scholars, and business observers (Porter, 2001).

Since the late 1980s, a growing number of studies on interorganizational networks has been carried out. One of the primary benefits held out for such networks is their potential to transform IOR (Li & Williams, 1999). The Internet's Web tools represent one type of interorganizational network. In this article, IORs refer to relationships between SMEs and their customers, which are organizations. Reichheld and Schefter (2000) stress that loyalty via relationships 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). The use of the Internet's 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 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.

Anecdotal evidence shows that the Internet can enable an SME that is involved in an IOR with its customer to globalize and achieve multimillion-dollar turnover in a couple of years (Poon, 2000). However, that is not always true, because these success stories are not widespread. Many SMEs that maintain IORs with their customers have difficulties achieving the benefits, as suggested by media and early research (Poon, 2000). In fact, many SMEs have failed to follow the robust technical standards that are needed in order to make electronic IOR practice economical (Dai & Kauffman, 2001; Daniel & McInerney, 2005). In addition, there is little existing research that has tested empirically the impact of the Internet's Web tools on IORs, which lead to business partners/customer loyalty.

The primary objective of this study is to examine the effects of the Internet's Web tools on

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