

## Chapter 4.11

# Exploring Trust Building Mechanisms in Global B2B Electronic Markets

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### ABSTRACT

There have been numerous studies about business-to-business (B2B) electronic commerce and market structure, most of them analyzing the relationships between buyers and sellers and the role of intermediaries. This research is based mainly on earlier papers about the role of information technology (IT) and electronic communications networks in the companies' relationships. The use of these computerized inter-organizational networks leads to lower transaction costs, which encourages the development of electronic markets, where there is a severe price competition and greater buyer choice. In this chapter, we analyze the development of global B2B electronic markets and if these markets are becoming a way of improving trust between organizations at an international level, increasing, therefore, the inter-

organizational cooperation among them. Based on the literature review and on the analysis of some global electronic markets, we define and describe these platforms, stressing the strategic role of each of the principal participating actors. Furthermore, we propose a model to explain the trust-related sources of competitive advantage for the new intermediaries in electronic markets and compare those with the off-line market's characteristics. In addition, some propositions related with the trust-building mechanisms are defined.

### INTRODUCTION

On the Internet, businesses can collaborate with other companies through third-party structures or institution-based trust mechanisms, known as B2B Internet-based electronic marketplaces or

Global b2b Electronic Marketplaces (Gb2bEM). As global electronic markets are spreading, trust is becoming an important issue in these global online environments (Ratnasingham, 1998). Furthermore, it is becoming difficult for the involved partners to build trust in global markets without face-to-face interaction (Walther, 1995).

In these markets, buyers interact, sometimes, with unknown sellers and vice versa (Pavlou & Gefen, 2004). Normally, in these transactions, buyers and sellers use an intermediary, Gb2bEM, that ensures the transactions with trust-building mechanisms, such as online feedback, monitoring, legal bonds, accreditation, and cooperative norms (Ba & Pavlou, 2002; Dellarocas, 2003; Pavlou, 2002). In addition, Pavlou and Gefen (2004) argue that an electronic market will have success only if it considers the design of adequate online trust-building mechanisms. In other words, in online interchanges, organizational buyers and sellers do the transaction by using Gb2bEM as intermediaries, because of its mediation function. They collect information about the agents involved on the market, inform of experiences on the market, and punish the agents with a non-desirable behaviour, even expelling them from the market. In this sense, our research questions for this chapter are twofold: Firstly, how do the Gb2bEM generate trust between buyers and sellers on online global environments? Secondly, does the presence of online trust building mechanisms influence the Gb2bEM success?

The rest of the chapter is organized as follows. Firstly, the role of intermediaries and the Internet will be analyzed. Secondly, Gb2bEM, as Internet-based intermediaries will be described, both from the Internet business models (describing some examples of Gb2bEM) and from the inter-organizational trust perspective. Finally, the main elements and relations related to trust building on electronic markets are considered in a model to explain the Gb2bEM success.

## **LITERATURE REVIEW**

### **Intermediaries and the Internet**

The impact of the Internet on businesses can be studied from both the industry and the firm's perspective. From an industry perspective, the Internet has positive and negative effects on sellers and buyers (Benjamin & Wigand, 1995, 1997). The positive effects for sellers are mainly a reduction of the distance between buyer and supplier and an increase in the sellers' change costs. On the other hand, a negative effect is that the Internet normally reduces the sellers' profit margin. For buyers, the Internet enhances their access to catalogues of products from multiple sellers, online order processing, and in many cases, discounted prices, such as in the airline industry (Buhalis, 2004).

The Internet creates new industries, reconfigures others, and has a direct impact on companies, buyers, sellers, distributors, and potential new entrants (Porter, 2001). Furthermore, it has been argued that with IT adoption, more opportunities exist for market transactions than for transactions conducted in a business hierarchy (Malone, Yates, & Benjamin, 1987). These Information Technologies reduce transaction costs, bring customers and producers together, and promote online environments characterized by the elimination of traditional intermediaries. Accordingly, Benjamin & Wigand (1995) proposed that electronic commerce (EC) leads to the elimination of traditional players from the value chain, with direct buyer-seller interaction. For example, newspaper companies can provide news to the consumer using Internet without the newsagent participation. This phenomenon is called disintermediation, *displacement or* elimination of market intermediaries, enabling direct trade with buyers and consumers without agents (Wigand, 1997, p. 4).

In contrast, online environments also offer intermediation opportunities for new players

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