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ITB9334

Chapter III

Literature Review

In chapter 2, we discussed the findings of an initial exploratory survey. In this chapter we undertake an in-depth literature review of business-to-business e-commerce and the importance of trust.

The task of undertaking a literature review is challenging, especially when it involves theories from multiple disciplines. The chapter begins with a discussion of e-commerce from two perspectives: a technological perspective (including technology trust mechanisms), and a social perspective (discussing trust behaviours in business relationships). Incorporated into the analysis are previous theories that focus on organizational behaviour (inter-organizational relationships), economic perspective (transaction-cost-economics theory), and political perspective (resource dependency theory). The rest of the chapter is organized as follows. First, we discuss the literature pertaining to the need for inter-organizational trust and provide definitions of trust from multi-disciplines, as well as characteristics and the development of trust in business relationships. This is followed by a discussion of the perceived benefits, perceived risks, and technology trust mechanisms in e-commerce leading to outcomes of e-commerce participation. Then, we examine the organizational, economic, and political theories leading to the evolution of inter-organizational systems to inter-organizational trust. Finally, we conclude the chapter with the development of the conceptual model of inter-organizational trust in e-commerce participation, leading to a justification of the research propositions derived from the model.

THE NEED FOR INTER-ORGANIZATIONAL TRUST

In spite of the efficiency and coordination benefits documented in both research literature and the trade press, e-commerce growth was relatively slow when this study was initiated in 1997. The findings of the KPMG e-commerce survey (1999 – discussed in chapter 2) indicated that Internet e-commerce growth was slower within the Asia-Pacific region as compared to the United States. This was due to perceived risks in security of business-to-business transactions and a lack of trust among trading partners (Drummond, 1995; Hudoklin and Stadler, 1997; Keen, 1999; Nath et al., 1998; Storreston, 1998). Fears about electronic fraud and lack of privacy hampered Internet commerce (Gorriz, 1999).

Trust has been identified as one of the central constructs in relationship marketing theory (Morgan and Hunt, 1994). The past decade has seen a paradigm shift toward relational marketing, which encompasses relational contracting, working partnerships, and strategic alliances (Anderson and Narus, 1990; Dwyer, Schurr and Oh, 1987; MacNeil, 1980; Morgan and Hunt, 1994). Relational marketing includes activities directed toward establishing, developing, and maintaining successful relational exchanges. Relational exchanges include supplier partnerships (goods suppliers, just-in-time, and total quality management), lateral partnerships (competitors, technology alliances, nonprofit organizations, government), buyer partnerships (ultimate customers and intermediate customers), and internal partnerships (functional departments, employees, and business units).

Previous research on trust in marketing and management suggests a focus on transaction-specific investments and firms' performance (Doney and Cannon, 1997; Ganesan, 1994; Smith and Barclay, 1997; Zaheer et al., 1998). For example, trust in buyer-seller relations may be an important source of competitive advantage because it lowers transaction costs, increases satisfaction (Geyskens et al., 1998), and facilitates investments, along with other favorable outcomes (Barney and Hansen, 1994; Dyer and Chu, 2000; Gulati, 1995;

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