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## Investigating the Factors Impacting Retailers Evaluations of Web Solution Providers

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# **INVESTIGATING THE FACTORS IMPACTING RETAILERS EVALUATIONS OF WEB SOLUTION PROVIDERS.**

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## **Introduction**

Retailers are responding to ever increasing competitive challenges by building collaborative relationships with customers, suppliers and service providers. Increasingly SME retailers have been adopting third party web services to help them leverage the technical expertise and knowledge required to become more strategic in their e-business ventures (Ray and Ray, 2006). Such arrangements rely on relational exchange characterized by high levels of trust and commitment (Dwyer et al., 1987; Morgan and Hunt, 1994). There are very few academic contributions examining factors, which influence how businesses develop and evaluate trust and commitment in inter-organisational relationships in an e-business context (Pavlou and Gefen, 2004). Studies in this area have tended to focus on issues associated with hard operational and logistical factors in the supply chain and the tangible benefits of customer relationship management systems rather than focusing on the significance of softer human factors. Consequently, research looking at the strategic value of trust and commitment in inter-organisational relationships between SMEs and web solution providers is almost non-existent.

Although the Internet and other new technologies have had high penetration rates in recent years, evidence suggests that there are signs of growing frustration and disillusionment with implementation and use of new technologies both within and outside the organisation (Doherty et al., 1999; Teo and Pian, 2003). White and Daniel (2004) found that one of the many reasons for e-tail failures was a lack of technical know-how required for reengineering the business to make it online compatible. Sourcing and relying on web solution partners for the commercial adoption of the Internet, enables SME retailer's to speed up the adoption process, bypassing the potentially slow procedures associated with in-house development (Hong and Zhu, 2006) and also facilitating improved competitive advantage (Teo and Pian, 2003).

Since the adoption of web services is a new phenomenon, the role of third parties who provide these services in that adoption is highly emergent (Daniel et al., 2004). Furthermore, there is a scarcity of empirical evidence investigating factors that influence trust from a B2B e-business perspective (Pavlou and Gefen, 2004). This is despite the fact that it has been acknowledged that how trust transfers in a multi channel setting, from offline to online channels (Shanker et al., 2002) where retailers rely on the experience and expertise of Web-Service Solution Providers (WSSPs) to design, develop, and/or market their business online, requires further research. This research addresses this deficiency and explores how retailers can leverage the necessary strategic resources and skills from a specialized web solution service company to facilitate their online retailing goals.

The paper proceeds with a review of the relevant literature. The exploratory research design is outlined and a profile of the interviewee companies presented. The research findings are discussed and highlight several fundamental issues, which have implications for retail practitioners, web solution providers and academic researchers.

## **Literature Review**

### **Collaborative Relationships**

Customer demand for multi-channel shopping and increased competition in the retail market combine to influence retailers' decisions to adopt the Internet (Doherty et al., 1999) as a customer channel. Organizations considering an on-line channel need to understand how to leverage Internet technology to best effect; this is especially important for retailers whose investments are evaluated in terms of their impact on business performance (Homburg et al., 2002). As noted by Burke, (2002: 431) "retailers must be cautious in adopting new technologies

as many innovations will not deliver sufficient value and consumer patronage to offset their costs”. Given the high perceived risk involved in transitions to the online environment, retailers are responding to these challenges by building collaborative relationships with service providers who have the expertise required to manage such operations (Ganesan, 1994). Organisations are increasingly engaging in co-operative inter-organisational relationships (IORs) that can result in long-term, mutually supportive, social, economic, service and technical ties. In the relationship marketing literature interorganisational relationships are found to reduce transaction costs, enhance collaborative innovation and may improve business performance through the achievement of sustainable competitive advantage (e.g. Barney and Hensen, 1994).

Dixon and Marston (2005) suggest that instead of building and maintaining costly internal systems, firms can leverage the technological functionality of web adoption to external specialist web companies. Recent studies on web technology adoption are exploring how businesses can adopt electronic web services (Ratnasingam, 2004; Ray and Ray, 2006), which are “the enabling technology of e-business and e-commerce systems” that facilitate web based storefronts and integrated web catalogue based solutions (Ratnasingam, 2004: 382). The decision to outsource may be dependent on managerial factors such as lack of capabilities and resources within the firm or the quest for competitive advantage may serve as a critical impetus to the outsourcing decision.

Venkatraman (1992: 9) define outsourcing as “the significant contribution by external vendors in the physical and/or human resources associated with the entire or specific components of the IT infrastructure in the user organisation”. Moreover, outsourcing requires “the provision of services by a vendor firm to a client” (Klepper 1995: 249). Arguably, businesses that outsource

such activities have the added benefit of sourcing all the necessary resources, skills, and competencies from one supplier thus enabling faster time to market, lower transaction costs, reduction of the risk of technological obsolescence and the ability to refocus on core competencies within the company (Han et al., 2008). In essence, outsourcing is an inherently relational approach to the provision of IS/IT resources and involves the cultivation of an interorganizational relationship between a client and the service provider.

Studies exploring web providers that offer all inclusive web packages that facilitate customised web solutions required for online business ventures appear to be deficient in the literature. Due to the paucity of this research web solution service providers (WSSPs) is a term developed for this study to describe firms offering services for developing, designing, and marketing websites including, hosting, domain registration, and maintenance and support services specifically tailored for their customers' online business.

### **Relationship Quality (RQ)**

Relationship quality has emerged as an important research stream in which to investigate the value of business to business relationships (Crosby et al., 1990; Rauyruen and Miller, 2007). Relationship quality is a general assessment of relationship strength and the extent to which a relationship meets the needs and expectations of the parties involved. Even though there is no consensus on which dimensions make up relationship quality, considerable overlap exists in the various conceptualisations. Discussions of RQ often emphasise the importance of trust and commitment (e.g. Anderson and Narus, 1990; Crosby et al., 1990; Ganesan, 1994)

The quality of B2B relationships has been viewed as a crucial factor in building success in the market as retaining customers over the long term yields greater profits. Crosby et al. (1990: 69)

suggest that effective exchange relationships are more critical when: the service is complex, customised, and delivered via multiple transactions (as is the case with retailing); many buyers are relatively unsophisticated about the service; and the environment is dynamic and uncertain in ways that affect future needs (demand) and offerings (supply). These characteristics can also apply in an e-business context where WSSPs provide offerings tailored to meet their client's e-business needs in a highly dynamic, complex environment that requires specialized skills, knowledge, resources, and capabilities. This has previously been demonstrated in relationship exchanges in high technology markets (De Ruyter et al., 2001a; Lin and Ding, 2005).

### **Relationship building blocks: Trust and Commitment**

#### **Trust**

Lewis and Weigert, (1985), suggest that to adequately conceptualise trust is to recognise that it is multi-dimensional and consists of cognitive, affective, and behavioural elements, which are influenced by past experience, knowledge, and familiarity. Morgan and Hunt (1994) conceptualize trust as existing when one party has confidence in an exchange partners reliability and integrity. Anderson and Narus (1990: 45) focus on the perceived outcomes of trust when defined as “the firms belief that another company will perform actions that will result in positive outcomes for the firm as well as not take unexpected actions that will result in negative outcomes”. According to Moorman et al. (1992: 82), trust is “a willingness to rely on an exchange partner in whom one has confidence”. An important aspect of their definition is the concept of trust as a belief, feeling or expectation about an exchange partner which can be judged from the partner's expertise, reliability and intentions.

Retailers build collaborative relationships with service providers as a strategic response to increased competitive pressures. These collaborations rely on relation exchanges characterized by high levels of trust (Ganesan, 1994). Consequently this enables parties to focus on longer-term benefits of the relationship. Trust reduces tensions and conflicts between firms and facilitates information disclosure, thereby enhancing collaboration and coordination thus, encouraging future transactions (Dwyer et al., 1987) and commitment to stay in a relationship (Anderson and Weitz, 1989). Trust has been identified as an important factor in interactions involving uncertainty and dependency (Grabner-Krauter and Kaluscha, 2003) and has been found to play a pivotal role in information systems and Internet adoption research in helping users overcome perceptions of risk in the acceptance and use of such technologies (Li et al., 2008; Pavlou and Gefen, 2004).

### **Trust Dimensions**

The literature on trust suggests that the trustee's confidence results from the belief that the trustor or exchange partner is reliable and has high integrity and that trust also involves beliefs relating to provider competence and benevolence (Doney and Cannon, 1997; Zaheer et al., 1998). Trust has also been viewed as a behavioural intention or behaviour that reflects a reliance on a partner and involves uncertainty and risk on the part of the trustor (Mayer et al., 1997). Dimensions used in empirical research on offline inter-organisational trust are for the most part (1) benevolence (Doney and Cannon, 1997; Ganesan, 1994) which is the belief that one partner is genuinely interested in the other partner's welfare and has intentions that are beneficial to the other party even when issues arise where previous agreements had not been made, (2) reliability, which relates to competence, ability, and business skills (Zaheer et al., 1998), and (3) credibility, (Doney and Cannon, 1997; Ganesan, 1994), which assures that the trustor can perform the job

effectively and with integrity thus acknowledging contracts, and fulfilling promises. This form of trust is usually impersonal and relies on reputation information and economic reasoning.

While the B2C perspective remains dominant among trust studies, more recent research is beginning to investigate trust within the B2B domain focusing on relationships between buyers and sellers that participate in online marketplaces (Pavlou and Gefen, 2004).

### **Institutional trust**

Institutional trust is the sociological element of trust: it is the belief that proper impersonal structures are in place to enable one to anticipate a successful future endeavour (McKnight et al., 2002; Pavlou, 2002). Zucker's (1986) seminal study suggests that institutional trust is the most important mode by which trust is created in an impersonal economic environment in the absence of familiarity and similarity. Zucker (1986) describes two dimensions of institutional trust (1) third party certification, such as licenses, regulations, and laws and (2) escrows, which guarantee the expected outcome of a transaction. The institutional view of trust has recently been adopted by e-commerce researchers, most likely due to the lack of physical interaction and anonymity of the online channel.

McKnight et al. (2002: 339) describe institution-based trust as a critical part of Internet transactions and identify two dimensions of Institution trust as (1) structural assurance, and (2) situation normality. Pavlou (2002) found that institutional-based trust mechanisms such as monitoring, legal bonds, accreditation and feedback promote Interorganisational trust and results in favourable outcomes such as satisfaction, perceived risk reduction and continuity in online transactions. McKnight et al. (1998) argue that institution-based trust and ones propensity to

trust are likely to be the most important determinants of trust, until experience and familiarity grow.

Overall, there is a growing literature that aims to explicate the vital role of institutional trust in e-commerce success. However, in an environment where licensing and regulations are deficient and where no formal governing body exists to regulate business practices institutional dimensions become paramount for instilling trust between firms. Moreover, in a relatively new industry where previous experience and familiarity may be limited institutional mechanisms such as communication, reputation, contractual agreements will influence how risky one perceives the relationship to be thus impacting trust and commitment toward relationship development. These dimensions have been found in both online and offline studies as key antecedents to Interorganisational trust (Pavlou, 2002; Pavlou and Gefen, 2002; DeRuyter et al., 2001a).

### **Communication**

Morgan and Hunt (1994: 25) posit communication as a major precursor of trust and drawing on a definition by Anderson and Narus (1990) define it broadly as “the formal as well as informal sharing of meaningful and timely information between firms”. Communication has been recognized as an antecedent to trust in high-technology service relationships (DeRuyter 2001a; Kim et al., 2008). As a multi-dimensional construct, (Mukherjee and Nath, 2007) the sub variable, quality of response, was considered to have the most significant influence on trust in the online domain. Responsiveness can indicate benevolence by behaving according to accepted rules, and has been associated with perceptions of cooperative intentions. DeRuyter et al. (2001a) contend that communication is an aspect, which will be considered when relationships are evaluated by customers. It has also been empirically verified that communication is

positively associated with trust (Anderson et al., 1987) and is an important input into commitment (Dwyer et al., 1987).

## **Reputation**

Rogers (1983) argues that attributes can have an indirect effect on innovation adoptions and can play an important role on the resultant level of adoption. It has been argued that the intangibility more difficult to assess value obtained from services and in the absence of intrinsic cues for assessing value, corporate reputation can be used as a signal for quality of a service (Laroche et al. 2003). Consequently, a firm's reputation can be used to derive information about unobservable service attributes that customers consider important (Hansen et al., 2008) and will have a profound effect on their attitude and behaviour of online services (DeRuyter et al., 2001b). Empirical evidence supports the link between reputation and trust (Anderson and Weitz, 1989; Ganesan, 1994).

Within the e-commerce literature a favourable reputation enhances credibility of the vendor. From an institutional perspective perceived accreditation has been viewed as a surrogate for reputation, which is provided from an accreditation authority and is considered a type of institutional signaling activity (Pavlou, 2002). However, where no such accreditation body exists a favourable reputation may be deduced from associations with independent reputable institutions, industry recognition awards of quality services and standards, and therefore can be considered in a similar vein to a seal of approval where service performance is judged by independent third parties (Jarvanpaa et al. 1999), consequently increasing perceptions of credibility and competence.

## **Contractual Agreements**

Contracts are the legal recourse or legal bonds that govern economic activity and have been proposed as an institution-based mechanism that reduce opportunistic behaviour and promote trust (Pavlou, 2002; Morgan and Hunt, 1994). A formal contract as an institutional mechanism can replace an informal promise and provide a signal that a firm is behaving in a responsible way and will protect the other party from loss (Zucker, 1986). Contractual agreements also assure the trusting party that activities are performed as specified by a pre determined set of agreements. Contracts can be considered as a form of monitoring, which aims to ascertain that transactions are conducted as per the established standards for quality, delivery, and performance. Therefore a firms' business policy, procedures, and loyalty assures the trusting party that transactions will be performed as expected thus reducing perceived risk and encouraging trust and commitment to engage in a relationship (Morgan and Hunt, 1994).

## **Trust as a driver of commitment**

Moorman et al. (1992:316) refer to commitment as “an enduring desire to maintain a valued relationship”. Similar to Morgan and Hunt's (1994:23) conceptualization of relationship commitment “as an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it; that is the committed party believes the relationship is worth working on to ensure that it endures indefinitely”. The implication of these definitions entails a willingness on the part of both partners to make short-term sacrifices to realize long-term benefits in the relationship. Furthermore, a common theme that stems from the definitions is a disincentive to replace relationship partners (Young and Denize, 1995).

## **Commitment Dimensions**

Researchers have found commitment to be the key component of establishing and maintaining long-term relationships between business partners (Cater and Zabkar, 2008; Geyskens et al., 1996; Morgan & Hunt, 1994). Within the organizational literature commitment has been identified as comprising of multiple components, which are affective, calculative and normative commitment (Mayer et al., 1997). Affective and calculative commitment is relatively stable attitudes and beliefs about the relationship but stem from different motivations for maintaining a relationship. Affective commitment is the emotional attachment one has to an organization because one identifies with, or internalizes the values of an organization. The relationship continues primarily because there is a sense of loyalty and belongingness between partners (Geyskens et al., 1996). Calculative commitment stems from an evaluation of the instrumental worth of continuing a relationship with an organisation (Wetzels et al., 1998). In this instance partners tend to stay in a relationship due to the anticipated switching costs or lack of alternatives. It can also be based on the perceived structural constraints that bind the partners such as contractual agreements, and not necessarily cognitive considerations of possible future opportunities provided by the affective commitment. Normative commitment is due to feelings of obligations to stay in a relationship (Geyskens et al., 1996).

## **Research Methodology**

The objective of this research is to investigate and explore the strategic value of trust and commitment in inter-organisational relationships between SMEs and web solution providers. The exploratory empirical research undertaken consisted of qualitative, in-depth semi structured interviews with senior managers of five web-solution companies and five retailers who have employed such services. The use of qualitative interviewing was considered a suitable technique

to understand firm experiences (Anderson et al. 1998; Shaw 1999). Interviews also allow the researcher to discover the reasoning behind decisions made by the respondent and to appreciate the opinions and beliefs of the respondent (Saunders et al., 2000)

This type of qualitative research approach usually signals the use of small samples, selected purposefully to facilitate the inclusion of information rich cases (Hill et al. 1999; Quinn-Patton 2002; Shaw 1999). The companies were selected based on the web services provided e.g. such as web design, development and marketing services, and previous e-retail web experience. Five retailers who had used such services previously were also included. The average duration of the interviews was forty minutes. Judgemental sampling was adopted as random sampling was not possible given the relatively small size of the total population (Wright, 1996). Moreover, a key aim was to identify key issues and themes from a reasonably robust sample from which inferences could be drawn (Gummesson, 1999). A profile of the companies involved is provided in tables 1 and 2.

The findings were analysed using *invivo* codes, codes originating from the respondents themselves (Strauss, 1987), Cross-case analysis helped highlight the degree of similarity or variability between the cases (Miles and Hubermann, 1994). A variable-oriented strategy was adopted, as the aim was to explore factors impacting retailer's appraisal of third party web solution service providers. The research methodology acknowledges the limitations inherent within qualitative research, such as arguments against validity and generalisation of findings. Validity concerns the integrity or credibility of results derived from qualitative research (Saunders et al., 2000). However carefully conducted interviews can yield high levels of validity.

## Findings and Discussion

The investigation into retailers and Interorganisational relationships with their web solution service providers has yielded very interesting results. The variation in findings in relation to retailer's perceptions of, and experiences with, WSSPs and the impact it has had on their online business ventures has been quite significant, ranging from very positive *"we're lucky, he's decent... when I call him in the evening the next day it's already done so I'm 100% happy with him* (MD, Retail Company D), to the very negative, *"I think they are all liars and cheats...it's horrible, horrible...an absolute nightmare and I'm really surprised anyone is online"* (MD, Retail Company B).

The findings from this study indicate that retailers' previous experiences with web outsourcing will influence their propensity to trust, and willingness to commit to, the web service provider. Furthermore, previous experience will also impact on retailer's expectations and intentions to further invest in WSSPs to implement proposed web projects. Retailers with a lack of experience have positive expectations about the outcome and about WSSP's integrity, skills, and abilities in relation to their desired web project, as communicated by the Marketing Executive, of Retail Company C, *"from my perspective they were the experts, I'm not an expert on ecommerce or online marketing so I gave a lot of trust over...as it's something we couldn't have achieved ourselves"*. Albeit the service providers argue that retailer's expectations are unrealistic in relation to what they expect and what they are willing to invest *"They expect the sun, moon and stars...they are generally the ones who aren't willing to spend the money as well. The ones that spend the money know that it's a long process... the ones that aren't willing to spend expect you to have the site done in a day or two.... the ones willing to spend are likely to have been there before as opposed to the new ones who don't really get it, they don't understand how long it takes*

(MD, WSSP Company C). However, the service providers also acknowledge that it is their responsibility to manage those expectations and deliver on agreed goals “*a good web company should be able to understand those [expectations] and translate and communicate them to the client and push for proper timelines...then you won’t have any problems in expectations being met*” (Operations Director, WSSP Company E).

However, in an environment where regulations are deficient and familiarity is low, institutional dimensions such as structural assurances and situational normality become paramount for instilling trust between firms (McKnight et al., 1998). The purpose of this study was to explore the factors affecting inter-organisational relationships between retailers and WSSPs. In so doing, identifying the key institutional mechanisms that influence how retailers’ develop and evaluate trust and commitment toward their WSSP was a primary objective. Consequently, the key factors that influence trust and commitment between retailers and WSSP’s are categorised as corporate reputation, communication, and contractual agreements.

### **Corporate Reputation**

A positive reputation has been considered a key factor for reducing risk (Kim et al. 2008) and creating trust (Ganesan, 1994) because it provides information that the selling party has honoured or met its obligations toward others in the past. Furthermore, it can be perceived as a representation of the firms’ overall appeal when compared with alternative suppliers. In keeping with this view, the findings suggest that a company with a good reputation can be considered as validated market information i.e. the company would not have a good reputation if the market thought differently (Hansen et al., 2008). Moreover, award winning service providers increase perceptions of integrity and benevolence toward the web company (Li et al., 2008) and

provide a cue to quality thus facilitating in the selection of a service provider...*We tendered it out ...but they had won a Golden Spider the year before as best website design and we had seen them in a national publication so that's why we approached them*", (Marketing Executive, Retail Company C). As such, a good reputation can enhance customers' perception of the firm's performance and lead to enhanced trust that the perceived benefits are comparatively better than alternative service providers (Hu et al., 2009).

The results from the qualitative interviews suggest that a positive perception of a firm's reputation also reduces the fear of being exploited and the need for safeguarding activities, which lowers costs to the buyer. Furthermore, the strong effect of a firm's reputation is not only important in attracting new customers, but also to deliver value to, and retain established relationships (Hansen et al., 2008). *"There is still the perceived risk that they [clients] are going to be ripped off by the web agency...they must use a reputable company...that's they key to it...and I would say reduces perceived risk...it's completely a perception issue...it's still a relatively new industry and there is no standards body...it absolutely is happening with backstreet guys buying open source stuff, passing it to their customers and quadroupling the cost...the bottom line is if you are an SME you should be looking for an agency that has a good body of work behind them...it's too risky not to do it right"* (Communications Director, WSSP Company B).

As previously mentioned the lack of institutional monitoring and regulation authorities enhances uncertainty within the industry and as the findings indicate referrals from previous clients and positive client testimonials increase a firms' reputation and may also provide third party assurances in an unfamiliar environment (Kimery and McCord, 2006). *" I had a list of six web*

*companies...it was much more important to me to see who they were dealing with...[WSSP company] had a well established client list and I looked at sites they had done and I called a few people they worked with". (MD Retail Company A). Furthermore, positive word of mouth not only increase retailers' propensity to trust and commit but also generate new business for service providers... "It's references, it's word of mouth and in Ireland that's the number one reason people do business with each other...everyone I know who starts in business I would say go to X, as I have done many times" (MD – Retail Company D). "It's all about referrals...a huge proportion of our business comes from referrals or recognition of the awards that we've won" (Operations Director – WSSP Company E).*

## **Communication**

Trust pertains to a customer's confidence and faith that the service provider will be reliable and willing to listen to the customer's wishes and act in their best interest. Similar to the impersonal nature of the online environment where trust is characterized by stages of development (Jarvenpaa et al. 1999), and reciprocal information exchange, communication will help build trust (Ridings et al., 2002). Accordingly, communication and collaboration between exchange parties on project development will engender perceptions of situation normality, which consequently will have a positive influence on perceptions that the service provider's intentions are beneficial, thus reducing risk perceptions of opportunistic behaviour and thus encouraging affective commitment towards relationship development (Morgan and Hunt, 1994). *"There is a process of educating the client... Break the project into mini stages and involve the client at every stage and get them in here to sign off so they understand...if you have a good project management plan and explain each process there won't be a problem...it's equally important to*

*have a good consulting project management team agreeing what the projects are and delivering on those agreed requirements”, (Operations Director, WSSP Company E).*

However, when trust is low, retailers are more likely to carefully scrutinize and monitor the other partner’s behaviour. Therefore, decisions as to whether to maintain the relationship are more likely to be based on a calculation of immediate benefits versus costs (Geyskens et al., 1998) consequently calculative commitment prevails *It was a very big expense on our balance sheets...it wasn't something we entered into lightly...I guess my error was entrusting that having communicated my need that it would be fulfilled and not examining every document that was sent through to make sure that every element of what I communicated was included in that... I don't think I'd do that now... I think I'd look at more sites that they had done... I think I would dot every i...I would have everything written down and basically sit on whoever I was dealing with”, (Marketing Executive, Retail Company C).*

The importance of communication in exchange relationships has been recognized to promote trust as it helps to resolve disputes and align perceptions and expectations. However, in relationships conflict may occur as the result of perceived impediment of the attainment of mutual goals and objectives, which may be due to a lack of communication and collaboration. As is evident from the interview results, in cases where there is a lack of communication and collaboration throughout the development of web projects, coupled with inadequate service delivery and a lack of conflict resolution will negatively impact trust and commitment towards the service provider and has costly consequences for the retailer... *It was becoming increasingly difficult to pick up the phone...I had at least six different account managers throughout the process, which was horrendous...there was no continuity...we had signed off on all agreements*

*and capabilities...they underquoted and under-delivered and haven't even delivered what they agreed... [the website] is very slow...it's horrifically slow...has been from the beginning... we were told that we could get an upgrade and they got a new e-marketing person in to ...and they told us we would have to invest a further €xk for online marketing...at that stage the relationship was so sour and I was so disillusioned with them I wasn't going to invest”* (Marketing Executive, Retail Company D).

Solving conflicts constructively may strengthen relationships and lead to greater trust in the service providers integrity and benevolence and therefore promote affective long term commitment between partners (DeRuyter et al., 2001a). In the IT service field, efforts by service providers to placate aggrieved customers following service failures not only increase customer satisfaction and enhance trust, but have been found to create positive word of mouth recommendations of the firm and increase loyalty toward the provider (Lin and Ding, 2005). The results suggest that putting strict procedures in place help alleviate and / or prevent conflict occurring in the first place *“One of the key problems is if you don't involve the client from day one and explain the project in terms of what their involvement is ... but sometimes they may need changes and we deal with it as a change request and that's fine but there are budget implications and time implications and see if they want to deal with it in the project or deal with it as a separate project... there won't be a problem”* (Operations Director, WSSP Company E).

### **Contractual Agreements**

A contract is considered a form of structural assurance and facilitates a belief that promises will be kept thus providing incentives for firms to engage in a relationship and avoid opportunistic behaviour (McKnight et al., 1998). *“My contract is with [WSSP]... they are managing the*

*system and the software developers that keep us going so if there are changes or implementations to be done they'll do all of that...the contract secures your business” (MD – Retail Company B).*

However, exchange relationships also involve psychological contracts as well as formal written contracts. The written contract is generally understood, unlike the psychological contract, which consists of unwritten and largely unspoken set of expectations about each other’s obligations. As noted by Zaheer et al. (1998) when unforeseen contingencies arise, such as costs not explicitly covered by the terms of a contract, high levels of trust facilitate the development of a common understanding about the issues and how they may be resolved. But as was evident from the findings contractual negotiations are less costly under conditions of high inter-organisational trust due to agreements being reached more quickly and easily. Furthermore, the retailer experiences cost benefits and the service provider maintains a strong relationship with a client who demonstrates a more positive affective commitment toward the service company...*“In the beginning we did a contract...we did a rolling quarterly contract where I would pay them €x per quarter and they would be available to make any changes...it was a maintenance contract...we haven't done that in the last 2/3 years now anytime we need something done they just price it... I think because I got in at ground level and because we have such a long relationship...I've been with them for 10 years... in that sense I suppose they see I'm looking after them... but if I need something quick done they'll do it and they don't really charge me... it's a specialised business they understand my business as much as a web designer-developer can...I am lucky” (MD – Retail Company E).*

It is evident from the results that inter-organisational relationships in high technology markets such as the web industry are complex. This study follows calls for research to further understand the role and nature of institutional mechanisms in impersonal contexts (Shapiro, 1987; Pavlou, 2002). Pavlou and Gefen (2002) show that trust in the marketplace has an impact on institution-based trust by increasing buyers' perceptions on the effectiveness of the marketplace's structural assurances. Moreover, the presence of structural assurances do not necessarily engender trust, unless these mechanisms are perceived as reliable and credible (Pavlou, 2002). Consequently, management of web solution companies need to take steps to increase the effectiveness of their trust building structures by increasing their own trustworthiness.

Furthermore, the results indicate that for the establishment of commitment in a B2B relationship, it is important that the client firm has trust in the service providers' benevolence and honesty. If the retail client believes the provider is honest and benevolent, i.e. that they are interested in the client firms' welfare and will not act opportunistically they will be more committed to that provider. This is particularly pertinent to web service providers given that the legacy of the dot bomb days still casts a dark shadow over the industry...*we still have to battle that perception... small, one, two man operations that do very quick dirty websites for small clients and that's dog eat dog stuff...that's still there...your getting some fly by night guy who won't be there to support it...the thing with technology is it's a living thing it needs constant support...we have a strict and rigorous process to ensure quality... Most of our clients are med-long term clients ...the majority is long term relationships* (Communications Director, WSSP B). Additionally, given the inherent uncertainties of the e-business domain, these institutional mechanisms may be the difference between confident and satisfied clients that wish to develop a long term relationship

with their wssp, and hesitant clients who prefer short term or once off web projects or perhaps, go it alone.

Despite the fact that previous investigations conclude that the potential of the Internet will have considerable strategic implications for retailers (Doherty et al., 1999), there is a “significant gap” in contributions that empirically investigate retailers’ strategic approaches to their online operations (Doherty and Ellis-Chadwick, 2006). Moreover, given the increasing importance of web services in the digital economy, understanding the key antecedents of institutional mechanisms of trust and commitment in an e-business context between retailers and WSSPs is of fundamental managerial importance for both parties involved. Web solution companies provide the necessary infrastructure and design technology and value-added services such as online marketing and web analytic solutions to facilitate retailers’ successful commercial exploitation of the Internet. But even with the potential benefits of trustworthy relationships, the difficulty arises from the required leap of faith, which some managers are not willing to take the risk...*the trickledown effect is happening there's more clients understanding that throwing up a website for a couple of hundred quid and expecting to do business out of it is not going to happen...it's better to wait a year build a budget and invest in a proper ecommerce system with a search engine optimisation campaign around it and you will start to see a return...we're not there yet and SME's in Ireland are way, way behind internationally...I have to say it's improving...every year it's improving* (Communications Director, WSSP B).

This research proposes that institution-based trust in an e-business context can be the first step toward building the necessary inter-organisational trust to enable successful collaborative relationships and encourage loyalty from a business-to-business perspective. The institutional

mechanisms suggested in this study provide retail companies the freedom to engage in business transactions that may otherwise be perceived as too risky, thus facilitating successful commercial adoption of the Internet as a channel to market.

## **Conclusions**

Overall the findings suggest that retailers evaluate web solution companies based on relevant web experience provided either by referrals or their previous client portfolio, which increases perceptions of the firm's credibility and competence to perform specific tasks (Kim et al., 2008). Institutional mechanisms' such as reputation, contractual agreements, and associations with reputable representative bodies such as the Irish Internet Association and award winning service providers increase perceptions of integrity and benevolence toward web solution providers. This is particularly significant as there are no formal representative bodies governing web solution service companies in Ireland. Consequently such structural assurances may help engender perceptions that favourable conditions are in place to facilitate successful outcomes (Pavlou, 2002) in an environment that may be considered risky or unpredictable (Zucker, 1986). Additionally, factors relating to the level of collaboration and communication at the outset of a web project assist in aligning perceptions and expectations (Anderson and Narus, 1990), retailers have toward the firm thus reducing risk perceptions of opportunistic behaviour and encouraging relationship development (Morgan and Hunt, 1994).

As competition in the marketplace intensifies service providers are faced with increases in customer expectations and demands. Research suggests that building relationships has become the major focus for businesses and establishing trust is one of the key strategic issues for cultivating and maintaining long term relationships (Rauyruen and Miller; 2007). As highlighted

in this study, trust and commitment in business-to-business markets is shaped by multiple factors. Building strong relationships requires an understanding of the needs and expectations of customers and the service providers' success in meeting these needs. The results indicate that a perception of high service quality and trust facilitates attitudinal and behavioural loyalty by encouraging existing customers to promote positive word of mouth referrals and repurchase intentions. The importance of this suggest that portraying a good corporate image of an organisation as a whole and good investment in the delivery of their services will essentially enhance the quality of the relationships between the service provider and retail client.

While the use of the Internet by SMEs has attracted some attention in recent years, it has been acknowledged there is a dearth of contributions that explore the adoption of web technologies by SME retailers (Doherty and Ellis-Chadwick, 2006). SME companies have some distinct characteristics that either facilitate or inhibit Internet adoption. These companies tend to be structurally less complex than larger firms, which can facilitate fast-decision making and innovation adoption (Doherty et al., 1999). Furthermore, SMEs may also more readily be able to make internal changes to processes and structures that are seen as necessary to deliver the benefits of later stages of e-commerce capability (Daniel et al., 2002). On the other hand, SME's tend to be restricted in their access to relevant innovation/ adoption-related resources e.g. human, technological and financial, which may inhibit Internet adoption or limit its functionality. Moreover, evidence suggests that the more advanced the adoption the more complex the adaptation, which requires a multi-channel retail strategy that needs additional and in some instances specialised resources and skills, that are significantly greater than that demanded by a bricks-only retail model and maybe beyond the capabilities and competencies of a retailer. One

means of achieving this is for retailer's to leverage the technical expertise, knowledge and skills of specialist web service companies.

As discussed, this exploratory study has highlighted several fundamental issues, which have implications for retail practitioners, web solution service providers and academic researchers. This research investigated retailers in specific retail categories and sectors, which may have characteristics that should be balanced by investigating larger retail firms operating in different retail categories. Studies investigating retailers' decisions not to employ a web solution service company may produce interesting findings in relation to the factors influencing their decisions to choose alternate web design and development routes. In addition, opportunities for further research with a larger national cross boarder geographical spread may produce interesting results in relation to regional conditions and infrastructure driving or inhibiting retailer's decisions to outsource their web activities to a specialist web service company. Furthermore, large scale quantitative studies on retailers' relationships with their WSSP will provide generalisable insights into the key antecedents and outcomes of trust and commitment in B2B relationships.

**Table 1: Retail company profile**

Retail Company	Size & age	Retail Model	Retail Category	Services Outsourced	Respondent Profile	Location
Company A	Est. 2005 Micro < 10 employees	Clicks only	Travel accessories	Web design & development	Managing Director	Dublin City Centre
Company B	Est. 2005 Micro < 10 employees	Bricks and clicks	Kids Clothing & accessories	Web design & development	Managing Director	Dublin
Company C	Est. 1992 Small 120 employees	Bricks and clicks	Confectionery / gift	Web design, development & Marketing	Marketing Executive	Kildare
Company D	Est. 2004 Micro < 10 employees	Bricks and Clicks	Luxury Jewellery	Web design/development	Managing Director	Dublin City Centre
Company E	Est. 1972 Micro < 10 employees	Bricks and clicks	Specialist Clothing & accessories	Web design and development	Managing Director	Dublin

**Table 2: WSSP company profile**

WSSP Company	Size & age	Services	Respondent profile	Location
WSSP A	Micro < 10 employees	Web Design & development (Opensource technology)	Consultant	Dublin City Centre
WSSP B	Small 25 employees Est. 1994	Web consultancy / design, development & marketing (Custom systems)	Communications Director	Dublin City Centre
WSSP C	Micro < 10 employees Est. 2003	Web design, development & Marketing (Use Opensource & custom systems)	Managing Director	Dublin
WSSP D	Micro < 10 employees Est. 2001	Web consultancy	Director and senior consultant	Dublin City Centre
WSSP E	Small – 13 employees. Est. 1998	Web design, development & marketing	Operations Director	Dublin

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