The Role of Facilitating Conditions and Institutional Trust in Electronic Marketplaces

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EXECUTIVE SUMMARY

Given the uncertainties of e-business, this paper examines the role of institutional trust, which has been viewed as a key facilitator of electronic marketplaces (Pavlou, Tan, & Gefen 2003). In doing so, we draw upon the principles of research on traditional EDI via value-added-networks to develop a set of theory-driven institutional trust-building facilitating conditions; namely, (a) IT connectivity, (b) standards, (c) security, and (d) uniform product descriptions. This study has implications for (1) the nature and role of institutional trust in e-marketplaces, (2) the strategic design of trust-building mechanisms in e-marketplaces, and (3) an extension of the literature on institutional trust.

Keywords: business-to-business e-marketplaces; EDI; facilitating conditions; institutional trust; interorganizational relationships

INTRODUCTION

E-marketplaces have recently received considerable attention in e-business research (Bakos, 1998; Palmer, Bailey & Faraj, 2000; Sarkar, Butler & Steinfeld, 1995). E-marketplaces attract a larger pool of trading partners and deal with multiple participants transacting electronically for the best price in order to increase liquidity and have a variety of price mechanisms such as auctions (Dai & Kauffman, 2001). They have been defined as a virtual place where buyers and sellers meet to exchange goods and services (Bailey & Bakos, 1997). E-marketplaces may be bringing about one of the most significant structural changes in business since the Industrial Revolution (Rayport & Sviokla, 1994), with a recent increase in interest in e-marketplaces by practitioners and academicians (Business Week, 2000; Kaplan & Sawhney, 2000). The emergence of e-marketplaces may substantially contribute to advantages of economies of scale and scope, reduction of search costs (Bakos, 1998), trust building (Pavlou, 2002; Pavlou, Tan & Gefen, 2003).
Despite the technology stock downturn and the cost of 80,000 minute millionaires, the Internet and other examples of technological innovations are expected to continue to drive wealth creation (Weems, 2001). The evident success of business-to-consumer (B2C) e-marketplaces is still not there for business-to-business (B2B) markets. Despite a considerable proportion of IT funds being spent on various B2B marketplaces, such as the GlobalNetXchange (GNX) and WorldWide Retail Exchange (WWRE), B2B marketplaces are yet to become successful. The main reason for the lack of progress is that in an electronic world, data must be correct and consistent (Sparks & Wagner, 2003). The Grocer (2002) claimed that a lack of common product language has reduced the success of B2B marketplaces.

According to Bakos (1998), e-marketplaces serve the following functions: (1) buyer demands seller products to achieve economies of scale and reduce bargaining asymmetry (Williamson, 1975); (2) protecting buyers and sellers from opportunistic behaviors of other participants on the market; (3) facilitating the market by reducing operating costs; (4) matching buyers and sellers (Malone et al., 1987); and (5) providing an institutional infrastructure that enables the efficient functioning of the market. In all five categories, there is less of a legal guarantee than there is in a traditional business environment and, hence, a heightened need for trust.

Accordingly, understanding what contributes to the success of these markets is crucial, not only because of their economic impact but also because of the high volatility in these markets. Of the more than 1,500 online markets in 2000, only about 150 still exist today (Day et al., 2003), and many of these still exist because of the nature of the relationships they have created (Dai & Kauffman, 2004). There are clearly many factors contributing to the success of some B2B e-markets in contrast to others, such as market leadership, an early entrant, and strategic alliances (Dai & Kauffman, 2004). The focus of this paper is to leverage some of the lessons learned from traditional Electronic Data Interchange (EDI) to guide research on e-marketplaces. In doing so, the paper provides another potentially contributing aspect—institutional trust. Institutional trust has been shown to be a significant predictor of online activity (i.e., e-marketplace success) in B2C e-marketplaces (Pavlou & Gefen, 2002). This paper argues for an equivalent effect through reduced social uncertainty in B2B e-marketplaces.

Institutional trust deals with the belief that there are impersonal structures that enable an entity (company or individual) to act in anticipation of successful future endeavors (e.g., Shapiro, 1987; Zucker, 1986). More specifically, we examine antecedents of institutional trust; namely, facilitating conditions (Pavlou, Tan & Gefen 2003). Following McKnight et al. (1998), Shapiro (1987), and Zucker (1986), this paper identifies and proposes four facilitating conditions: (1) IT connectivity, (2) standards, (3) security, and (4) uniform product descriptions. The purpose of this study is to analyze the impact of facilitating conditions on institutional trust toward a successful participation in e-marketplaces, drawing upon the literature on traditional EDI via value-added-networks. The study’s research question study is: How can the lessons learned from the role of institutional trust in traditional EDI impact the successful design of trust building mechanisms in e-marketplaces?