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ABSTRACT

This paper explores the performance of Chinese small and medium sized enterprises (SMEs) on Business-to-Business (B2B) electronic marketplaces (EMs). Based on a content analysis of 155 cases of high performing online Chinese vendors, this paper explains the success of SME online B2B vendors within a Motivation-Capability framework. This first generation of SME B2B online vendors proved highly motivated to increase sales and developed a set of Internet leveraged organizational capabilities to compete online, including capabilities for online marketing, product innovation, e-Commerce management, etc. This study differs from traditional wisdom that online marketplaces will render Guanxi (a Chinese cultural phenomenon defined as close and pervasive interpersonal relationships, Yang, 1994) irrelevant since online marketplaces are perceived to be impersonal. In fact, Guanxi still matters online, but it takes new forms. This research offers important managerial implications for B2B SME online vendors on how to leverage EMs for higher performance.

Keywords: Digital Organizational Capabilities, E-Commerce Performance, Entrepreneurial Motivation, Guanxi, Resource Based View, SME Online B2B Vendors

INTRODUCTION

Small and medium sized online vendors are SME business firms with annual revenues less than RMB300 million that take advantage of electronic marketplaces to sell products/services and achieve organizational growth. In China, the number of online vendors has increased dramatically in recent years, due to both the heightened atmosphere for entrepreneurship and
increased eCommerce awareness among SMEs. These SMEs are either existing firms that use the Internet as a complementary sales channel, or Internet start-ups that try to capture business opportunities leveraged by the Internet. The typical Internet applications that these vendors use include third party electronic marketplaces, company websites, and online Software as a Service (SaaS) (Lefebvre et al., 2005). However, the majority relies on electronic marketplaces because they have limited resources to build and promote their own websites (Gulledge, 2002).

This paper focuses on SME online vendors using B2B electronic marketplaces (EMs). B2B EMs are Internet based electronic platforms that facilitate transactions and interactions among companies. However, we do not focus on a specific EM, because most online vendors use multiple EMs so as to achieve the greatest possible market exposure. Focusing on a single, centralized EM would not allow us to track SME online performance in totality. Internet trading among businesses through any and all EMs is studied in this research.

Selling products through B2B EMs is different from selling in traditional marketplaces. The main benefit of the Internet is that it allows SMEs to market products at lower cost, while at the same time reaching many more customers. This helps them to overcome the constraints imposed by lack of access to Guanxi (a term similar to interpersonal relationships, Yang, 1994) that is embedded in local markets.

At the same time, SME online vendors face great challenges. First, the online business environment is more turbulent than the traditional market, in terms of demand uncertainty, higher price volatility, and quickly changing business requirements. Second, the transparent nature of online marketplaces and increasingly large number of participants make online product selling more competitive than in traditional markets (Zhu 2004b).

The productive use of EMs for selling purposes is not as simple as becoming a member of several EMs, and waiting for customer contacts. However, a literature review reveals that most related research has only focused on SME adoption of eCommerce (Al-Qirim, 2005, 2007; Beckinsale et al., 2006; Chen & McQueen, 2007; Dholakia & Kshetri, 2004), and the adoption of B2B electronic marketplaces (Grewal et al., 2001; Son & Benbasat, 2007). These researchers have studied the driving forces and challenges for EM adoption that SMEs face, such as limited resources to use EMs, reluctance to change, lack of technology knowledge, and know how (Kartiwi & MacGregor, 2007; MacGregor & Vrazalic, 2006). Few studies have analyzed the SMEs’ continued use of EMs, and their performance after adopting EMs.

In this research, we seek answers to the following question: What factors lead to the initial success of SME B2B online vendors? This question is addressed by building an integrated Motivation-Capability (M-C) framework to model the motivation and behavior of these vendors. The framework is grounded in the content analysis of SME online vendor success stories and an interpretation based on entrepreneurial motivation, resource based view, and Guanxi theories.

In this framework, we first introduce the concept of entrepreneurial motivation to explain the behavioral drivers of successful B2B online vendors. This contrasts with motivations that have been previously studied to explain the adoption of B2B EMs: legitimacy motivation grounded in institutional theory and efficiency motivation grounded in transaction cost theory (Grewal et al., 2001; Son & Benbasat, 2007). The concept of entrepreneurial motivation is highly relevant because, in China, B2B EMs are used by many entrepreneurs to launch or transform their own businesses. Even if new companies are not involved, the adoption of eCommerce can be considered a risky, entrepreneurial action.

Second, we argue that the Resource-Based View (RBV), can explain the performance of a firm through the heterogeneous resources and capabilities the firm owns (Barney, 1991), and
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