The Effect of Inter-Organization Trust and Dependency on E-Procurement Adoption: A Case of Malaysian Manufacturers

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ABSTRACT
Firms often have to integrate their daily business activities with supply chain partners, to remain competitive in today’s ever changing business environments. Information technology (IT) such as e-procurement has enabled firms to take advantage of the many benefits of integrating these business activities electronically. A review of the literature indicates that there is an apparent lack of research into the effects of trust and dependency on e-procurement adoption decisions, which is the key focus of this study. Through the use of survey questionnaire distributed to 834 manufacturers across different industries in Malaysia, this research seeks to investigate the impact of inter-organization trust and dependency on e-procurement adoption decisions. Findings revealed that dependency, interaction between trust and dependency, and size of company have a strong impact on the adoption decisions while trust has only a modest effect.

Keywords: Dependency, Electronic Commerce, E-Procurement, Malaysia, Supply Chain, Trust

INTRODUCTION
Nowadays, manufacturers are increasingly engaged in strategic alliances and partnerships with their supply chain partners to gain benefits (such as skills and resources) that they can offer to the relationship. Development in information and communication technology, especially the Internet has made the alliances more effective through the integration of the firm’s information technology (IT) infrastructure. One of the supply chain systems that has benefited considerably from the advances in information systems is e-procurement. Procurement consists of all necessary activities to acquire goods and services that align with user requirements (Coyle, Bardi, & Langley, 2003), and this activity was previously considered as a slow manual business procedures that create problems such as error in ordering, costing, invoicing, which were time consuming and costly to trace (Hawking,
Stein, Wyld, & Foster, 2004). Businesses realized that time and cost savings can be achieved by establishing exchange networks such as the electronic data interchange (EDI) with their major suppliers. The evolution of the Internet enabled firms to centralize their procurement and logistics systems that were previously conducted in every country they operate in. E-procurement refers to the procurement process being conducted electronically via the connected infrastructure such as the Internet and EDI (Hall, 2008; Hawking et al., 2004), which facilitates and expedites the checking of inventory, negotiate price, order status, issue an invoice and receive payment (Coyle et al., 2003). E-procurement consists of many different tools and a firm may implement all of them or just some applications that are relevant to their business needs. There are six types of e-procurement system; namely e-sourcing, e-tendering, e-informing, e-reverse auction, e-MRO/Web-based MRP, and e-collaboration (De Boer, Harink, & Heijboer, 2002).

Literature on e-procurement or e-commerce/e-business adoption in general reveal that factors that influence IT adoption can be classified into two categories; company’s internal and external factors. Internal factors include organizational culture and attitude of people working in it (Hogarth-Scott, 1999), management structure and their support (Gunasekaran & Ngai, 2008; Ungan, 2005), leadership, organizational learning, IT resources (Wu, Zhao, Xia, & Zhu, 2008) and company’s financial situation (Gunasekaran & Ngai, 2008). While external factors include competitive environments of their business (Vilaseca-Requena, Torrent-Sellens, Meseguer-Artola, & Rodriguez-Ardura, 2007) or the social network where the firm or the management belongs. Firms attempt to behave the way their social network, which consists of trade association, accreditation agencies or channel members view as appropriate (Atkinson, 2007). Literature identifies two external factors that are under researched and therefore will be explored in this study: the influence of (1) inter-organizational trust and (2) dependency between manufacturers and their partners (Bahmanziari, Pearson, & Crosby, 2003; Gunasekaran & Ngai, 2008; Hawking et al., 2004; Tung, Chang, & Chou, 2008; Ungan, 2005). The purpose of this study is to determine the level of influence of these two factors and their importance on a firm’s e-procurement adoption decisions. In addition, this study seeks to determine how the interaction between these factors influences e-procurement adoption decisions.

THEORETICAL BACKGROUND AND HYPOTHESES

Trust

Trust is a key factor towards a successful and sustainable supply chain relationship. It is becoming more crucial as today’s supply chain involves high level of interdependency and information sharing between firms (Mayer & Davis, 1995). Trust refers to the willingness to rely on the partner in whom one has confidence in and it exists when one party has strong faith in the partner’s reliability and integrity (Morgan & Hunt, 1994). The economic benefits of trust in a business relationship include: the reduction in the details and the need for monitoring a contract, decrease transaction costs (Gulati, 1995) and lower the transaction-specific risks (Ba & Pavlou, 2002). Through trust, partners are expected to make business decisions and perform activities that are mutually beneficial and will not undertake any unexpected actions that may result in damaging the relationship (Anderson & Weitz, 1989).

There are several different levels (such as micro/individual, organization/intra-organization, and society/economy) of analysis that can be undertaken on trust (Gulati & Sytch, 2008) of which many prior studies conducted have concentrated mainly on the role of trust on organizational behavior and inter-organizational relationships (Ba & Pavlou, 2002; Bahmanziari et al., 2003; Mayer & Davis, 1999; McAllister, 1995). It is only recently that the role of trust in organizational information technology adoption is getting more attention (Tung, 2008). Instead,
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