

# THE ROLE OF TRUST AND TRANSACTION SPECIFIC INVESTMENTS IN REALIZING BENEFITS FROM E-BUSINESS TECHNOLOGY

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## Abstract

One of the ways companies try to achieve competitive advantage is to develop long term relationships with their business partners: customers, suppliers and distribution channel members (Peteraf 1993). These partnerships require investments but are thought to provide a competitive edge to companies by reducing transactions costs in an ongoing business relationship (Williamson 1979). Recently, the emergence of e-business software, more specifically, partner relationships management (PRM) software provided companies with another option to reduce the transaction costs of business partnerships.

## Model and Hypothesis Development

Most interorganizational studies define trust as “the extent to which a firm believes that its exchange partner is honest and/or benevolent” (Geyskens et al 1998). Selling efficiency construct was conceptualized as a result of our depth interviews with managers at the reseller firms. Many managers indicated that one of the main benefits of using e-business technology was that they achieved some selling efficiencies.

H1. Trust has a positive effect on reseller selling efficiency.

Similar to the selling efficiency, the ordering efficiency could be defined as ‘cost saving benefits derived by the use of e-business technology’. A related construct of ordering benefits has been examined in prior research (Osmonbekov 2010), however our construct is more comprehensive and encompassing.

H2. Trust has a positive effect on reseller ordering efficiency.

The terms transaction specific investments (TSI) or transaction specific assets (TSA) are used interchangeably in the marketing literature (Lohtia et al 1994) and typically defined as assets that have little or no value outside of a particular relationship (Lohtia et al 1994). These idiosyncratic investments are made by parties in a relationship in order to make the ongoing transactions between parties more efficient (Williamson 1979).

H3. TSI have a positive effect on reseller selling efficiency.

H4. TSI have a positive effect on reseller ordering efficiency.

We define profitability as profits derived from a given relationship with a manufacturer given the costs and the effort to generate revenue for the manufacturer’s product line. This definition is in line with prior research on the subject (Kumar et al 1995).

H5. Reseller selling efficiency has a positive effect on reseller profitability.

H6. Reseller ordering efficiency has a positive effect on reseller profitability.

## Data Collection, Analysis and Results

The sampling frame for the study was a list of computer resellers from a list vendor from which a random sample was drawn. Ordinary least squares regression analysis was used to test the hypotheses. Three different regressions were performed. The results of the regression

analysis provide support for H1 and H2. H3 received only very weak empirical support. H4 received no support. H5 and H6 were supported.

The findings indicated that both trust and TSI have a strong and positive impact on selling efficiency of the reseller. This confirms that trust is an important factor regardless of the nature of the transactions, whether they are online or face-to-face transactions. TSI, as predicted, has also a strong and significant impact on selling efficiency. The surprising findings come from the found effects on ordering efficiency. The regression model of predicting ordering efficiency using trust and TSI as independent variables is not significant suggesting that these two variables are not very good predictors of ordering efficiency. Profitability was found to be influenced strongly by the selling efficiency, as it has a strong and significant impact in the regression analysis. Although the significant impact was predicted, the size of the impact is surprising. It suggests that selling efficiency is an important factor for managers at the reseller firms to monitor and try to improve. On the other hand, ordering efficiency does not significantly impact profitability, a surprising finding given prior research on this subject.

References Available upon Request