CHAPTER ONE

Introduction
1.1- Introduction

The continued exponential growth of the Internet, coupled with its growing ubiquity, especially globally, has provided firms with a means to finally realize the promised economic benefits of electronic commerce: reduced transaction costs, increased geographical scope and enhanced customer support.\(^1\) Electronic commerce is a revolution in business practices. If organizations are going to take advantage of new Internet technologies, then they must take a strategic perspective. That is, care must be taken to make a close link between corporate strategy and electronic commerce strategy.\(^2\) Electronic Commerce has changed and is still changing the way business is conducted around the world. The commercialization of the Internet and World Wide Web (WWW) has driven Electronic Commerce to become one of the most promising channels for inter-organizational business processes. E-Commerce has emerged as a whole of business strategy that enables organisations to improve business processes and communication, both within the organisation and with trading partners.\(^3\)

This chapter will explore e-commerce and discuss shortcomings associated with current definitions, types, benefits, and limitations of e-commerce, and also identify a comprehensive set of potential determinants influencing the implementation success of e-commerce.

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\(^1\): Fife, Elizabeth,(2002), Small- and Medium-Size Enterprises and the E-economy: Challenges and Prospects, Canter for Telecommunications Management, Marshall School of Business, University of Southern California, University Park, Los Angeles, p1

\(^2\): Watson, Richard T,(2007), Electronic Commerce: The Strategic Perspective, University of Georgia, p5

\(^3\): Chong, Sandy,(2006), Determinants of satisfaction of e –commerce implementation: some evidence from the small – and medium – sized enterprises, Curtin University of Technology, GPO Box U1987 Perth, Western Australia, p1
1.2- Definitions of electronic commerce

The cutting edge for business today is Electronic commerce. Most people think e-commerce means online shopping. But web shopping is only a small part of the picture. The term also refers to online stock, bond transactions, buying and downloading software without ever going to a store. In addition, e-commerce includes business to business connections that make purchasing easier for big corporations.

“E-commerce is generally described as a method of buying and selling products and services electronically.” The main vehicle of e-commerce remains the Internet and the World Wide Web, but uses of e-mail, fax and telephone orders are also prevalent.

Electronic commerce is the application communication and information sharing technology among trading partners to the pursuit of business objectives. E-commerce can be defined as “modern business methodology that addresses the needs of the organization, merchants and consumers to cut costs while improving the quality of goods and services and speed of service delivery”. E-commerce is associated with the buying and selling of information, products, and services via computer networks. A key element of e-commerce is information processing.

The effects of e-commerce are already appearing in all areas of business, from customer service to new product design. It facilitates new types of information based business processes for reaching and interacting with customers-online advertising and marketing, online order taking, online customer service and etc. It can also reduce costs in managing orders and interacting with a wide range of suppliers and trading and trading partners, areas that typically add significant overheads to the cost of products and services.
With the rapid advancement in Internet software and hardware and the infrastructure, the electronic commerce is also becoming more and more popular. Many large corporations, small and medium companies and individuals are investing more and more in the Internet business. There are nearly as many definitions of e-commerce as there are contributions to the literature. Turban et al (2002) define e-commerce as:

“an emerging concept that describes the process of buying, selling, or exchanging services and information via computer networks.”

Choi et al. (1997) draw a distinction between what they term pure e-commerce and partial e-commerce. According to Choi et al., “pure e-commerce” has a digital product, a digital process, and a digital agent. All other interactions (including those that might have one or two of the three nominated by Choi et al. are termed “partial e-commerce.”

Raymond (2001) defines e-commerce as:

“The functions of information are exchange and commercial transaction support that operate on telecommunications networks linking business partners (typically customers and suppliers).”

Demeanour (2001), by comparison, defines e-commerce as:

“Any “net” business activity that transforms internal and external relationships to create value and exploit market opportunities driven by new rules of the connected economy.”

For the purposes of this research, we use a broad definition of electronic commerce:

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“Any use of information and communications technology by a business that helps it improves its interactions with customers or suppliers.”

A narrower definition of electronic commerce might be to limit it only to the electronic exchange of business transactions themselves, e.g., orders and invoices (with or without the use of a website). In fact, businesses in developing countries may be able to reap significant benefits from e-commerce defined more broadly even when legal, regulatory or infrastructure constraints may make it difficult or impossible for them to actually transact business electronically. For example, a business in a developing country might be able to use an e-marketplace or even Internet searches to figure out market prices for one of its products so it can compete better and win new customers. Many SME’s can also gain a competitive edge by using the Internet well to do market research, find information on competitors and track down leads for new customers, or provide better customer support. These activities all fall under the broader definition of electronic commerce and could be termed “e-business”. This broad definition includes transacting business or exchanging business-related information between:

B2C: Business and Consumers (their customers)

B2B: Business to Business, e.g., where one business buys supplies from another or buys products to resale.

B2G: Businesses to Government, where perhaps businesses conduct transactions electronically with Government regarding various business licensing or reporting requirements or where businesses sell products or services to Governments.

C2C: Consumer-to-Consumer e-commerce or C2C is simply commerce between private individuals or consumers.¹

1.3- Types of e-commerce

The major different types of e-commerce are: business-to-business (B2B); business to consumer (B2C); business-to-Government (B2G); consumer-to-consumer (C2C); and mobile commerce (m-commerce).

1.3.1- Business-to-Business e-commerce meaning

Business-to-Business e-commerce is simply defined as e-commerce between companies. This is the type of e-commerce that deals with relationships between and among businesses. About 80% of e-commerce is of this type, and most experts predict that Business-to-Business e-commerce will continue to grow faster than the Business-to-consumer segment. The Business-to-Business market has two primary components: E-infrastructure and E-markets Infrastructure

1.3.1.1- E-Infrastructure meaning

Research is increasingly carried out through distributed regional, national and global collaborations enabled by the Internet. Such collaborations are built upon an infrastructure of grid computing software that can provide researchers with benefits including shared access to large data collections, advanced ICT tools for data analysis, large-scale computing resources, and high-performance visualisation.

E-Infrastructure is the term used for the technology and organisations that support research undertaken in this way. It embraces networks; grids, data centres and collaborative environments, and can include supporting operations centres, service registries, single sign-
on, certificate authorities, and training and help-desk services. Most importantly, it is the integration of these that defines e-infrastructure.

Moving into the future, e-infrastructure has the potential to build on the world-class facilities that have already been developed to deliver what Atkinson et al. have summarised:

“In the future a pervasive digital infrastructure will allow computing facilities to be always available via a heterogeneous range of devices. The infrastructure will seamlessly combine reliable high-performance computing and communication networks and variable low-performance embedded or portable devices with integrated wireless facilities. This will connect scientists in resource-rich labs to field scientists with limited resources or to remote automated experiments to form a distributed ubiquitous system. The supporting infrastructure will need to be open to all legitimate users, promote heterogeneity and be extremely flexible. Resources will vary in their availability, their certification of quality and their reliability.”

1.3.1.2-E-Market meaning

E-markets are simply defined as Web sites where buyers and sellers interact with each other and conduct transactions.

The more common Business-to-Business examples and best practice models are IBM, Hewlett Packard (HP), Cisco and Dell. Cisco, for instance, receives over 90% of its product orders over the Internet.

Most Business-to-Business applications are in the areas of supplier management (especially purchase order processing), inventory management (i.e., managing order-ship-bill cycles), distribution management (especially in the transmission of shipping documents), channel

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management (i.e., information dissemination on changes in operational conditions), and payment management (e.g., electronic payment systems or EPS).

E-Marketer projects an increase in the share of Business-to-Business e-commerce in total global e-commerce from 79.2% in 2000 to 87% in 2004 and a consequent decrease in the share of Business-to-consumer e-commerce from 20.8% in 2000 to only 13% in 2004.

1.3.1.3- Benefits of Business-to-Business E-Commerce in Developing Markets

The impact of Business-to-Business markets on the economy of developing countries is evident in the following:

I) **Transaction costs:**

There are three cost areas that are significantly reduced through the conduct of Business-to-Business e-commerce. First is the reduction of search costs, as buyers need not go through multiple intermediaries to search for information about suppliers, products and prices as in a traditional supply chain. In terms of effort, time and money spent, the Internet is a more efficient information channel than its traditional counterpart. In Business-to-Business markets, buyers and sellers are gathered together into a single online trading community, reducing search costs even further. Second is the reduction in the costs of processing transactions (e.g. invoices, purchase orders and payment schemes), as Business-to-Business allows for the automation of transaction processes and therefore, the quick implementation of the same compared to other channels (such as the telephone and fax). Efficiency in trading processes and transactions is also enhanced through the Business-to-Business e-market’s ability to process sales through online auctions. Third, online processing improves inventory management and logistics.
II) **Disintermediation:**

Through Business-to-Business e-markets, suppliers are able to interact and transact directly with buyers, thereby eliminating intermediaries and distributors. However, new forms of intermediaries are emerging. For instance, e-markets themselves can be considered as intermediaries because they come between suppliers and customers in the supply chain.

III) **Transparency in pricing:**

Among the more evident benefits of e-markets is the increase in price transparency. The gathering of a large number of buyers and sellers in a single e-market reveals market price information and transaction processing to participants. The Internet allows for the publication of information on a single purchase or transaction, making the information readily accessible and available to all members of the e-market. Increased price transparency has the effect of pulling down price differentials in the market. In this context, buyers are provided much more time to compare prices and make better buying decisions. Moreover, Business-to-Business e-markets expand borders for dynamic and negotiated pricing wherein multiple buyers and sellers collectively participate in price-setting and two-way auctions. In such environments, prices can be set through automatic matching of bids and offers. In the e-marketplace, the requirements of both buyers and sellers are thus aggregated to reach competitive prices, which are lower than those resulting from individual actions.

IV) **Economies of scale and network effects:**

The rapid growth of Business-to-Business e-markets creates traditional supply-side cost-based economies of scale. Furthermore, the bringing together of a significant number of buyers and sellers provides the demand-side economies of scale or network effects. Each additional incremental participant in the e-market creates value for all participants in the
demand side. More participants form a critical mass, which is key in attracting more users to an e-market.

1.3.2- Business to Consumer e-commerce meaning

Business-to-consumer e-commerce, or commerce between companies and consumers, involves customers gathering information; purchasing physical goods (i.e., tangibles such as books or consumer products) or information goods (or goods of electronic material or digitized content, such as software, or e-books); and, for information goods, receiving products over an electronic network.

It is the second largest and the earliest form of e-commerce. Its origins can be traced to online retailing (or e-tailing). Thus, the more common Business-to-consumer business models are the online retailing companies such as Amazon.com, Drugstore.com, Beyond.com, Barnes and Noble and ToysRus. Other Business-to-consumer examples involving information goods are E-Trade and Travelocity.

The more common applications of this type of e-commerce are in the areas of purchasing products and information, and personal finance management, which pertain to the management of personal investments and finances with the use of online banking tools.

E-Marketer estimates that worldwide Business-to-consumer e-commerce revenues will increase from US$59.7 billion in 2000 to US$428.1 billion by 2004. Online retailing transactions make up a significant share of this market. E-Marketer also estimates that in the Asia-Pacific region, Business-to-consumer revenues, while registering a modest figure compared to B2B, nonetheless went up to $8.2 billion by the end of 2001, with that figure doubling at the end of 2002—at total worldwide Business-to-consumer sales below 10%.
Business-to-consumer e-commerce reduces transactions costs (particularly search costs) by increasing consumer access to information and allowing consumers to find the most competitive price for a product or service. Business-to-consumer e-commerce also reduces market entry barriers since the cost of putting up and maintaining a Web site is much cheaper than installing a “brick-and-mortar” structure for a firm. In the case of information goods, Business-to-consumer e-commerce is even more attractive because it saves firms from factoring in the additional cost of a physical distribution network. Moreover, for countries with a growing and robust Internet population, delivering information goods becomes increasingly feasible.

1.3.3- Business-to-Government e-commerce meaning

Business-to-Government e-commerce or B2G is generally defined as commerce between companies and the public sector. It refers to the use of the Internet for public procurement, licensing procedures, and other government-related operations. This kind of e-commerce has two features: first, the public sector assumes a pilot/leading role in establishing e-commerce; and second, it is assumed that the public sector has the greatest need for making its procurement system more effective.

Web-based purchasing policies increase the transparency of the procurement process (and reduce the risk of irregularities). To date, however, the size of the Business-to-Government ecommerce market as a component of total e-commerce is insignificant, as government e-procurement systems remain undeveloped.
1.3.4- Consumer-to-Consumer e-commerce meaning

Consumer-to-consumer e-commerce or C2C is simply commerce between private individuals or consumers. There are many sites offering free classifieds, auctions, and forums where individuals can buy and sell thanks to online payment systems like PayPal where people can send and receive money online with ease. E-Bay’s auction service is a great example of where person-to-person transactions take place everyday since 1995.\(^1\)

An excellent example of this is found at E-bay, where consumers sell their goods and services to other consumers. To accommodate this activity, several technologies have emerged. Firstly, E-bay allows all sellers and buyers to rate one another. In this manner, future prospective purchasers may see that a particular seller has sold to more than 2,000 customers - all of whom rate the seller as excellent. In another example, a prospective purchaser may see a seller who has previously sold only 4 times and all 4 rates the seller poorly. This type of information is helpful. Another technology that has emerged to support Consumer-to-consumer activities is that of the payment intermediary. Pay Pal is a good example of this. Instead of purchasing items directly from an unknown, un-trusted seller, the buyer can instead send the money to Pay Pal. From there, Pay Pal notifies the seller that they will hold the money for them until the goods have been shipped and accepted by the buyer.\(^2\)

This type of e-commerce is characterized by the growth of electronic marketplaces and online auctions, particularly in vertical industries where firms/businesses can bid for what they want from among multiple suppliers. It perhaps has the greatest potential for developing new markets. This type of e-commerce comes in at least three forms:

\(^1\) : (http://www.digitsmith.com/ecommerce-definition.)

1) Auctions facilitated at a portal, such as E-Bay, which allows online real-time bidding on items being sold in the Web;

2) peer-to-peer systems, such as the Napster model (a protocol for sharing files between users used by chat forums similar to IRC) and other file exchange and later money exchange models; and

3) Classified advertising at portal sites such as Excite Classifieds and e-Wanted (an interactive, online marketplace where buyers and sellers can negotiate and which features “Buyer Leads & Want advertising”).

Consumer-to-business (C2B) transactions involve reverse auctions, which empower the consumer to drive transactions. A concrete example of this when competing airlines gives a traveller best travel and ticket offers in response to the traveller’s post that she wants to fly from New York to San Francisco. There is little information on the relative size of global Consumer-to-consumer e-commerce. However, Consumer-to-consumer figures of popular Consumer-to-consumer sites such as E-Bay and Napster indicate that this market is quite large. These sites produce millions of dollars in sales every day.

1.3.5- Mobile -Commerce meaning

Mobile commerce (M-commerce) is the buying and selling of goods and services through wireless technology-i.e., handheld devices such as cellular telephones and personal digital assistants (PDAs). Japan is seen as a global leader in m-commerce. As content delivery over wireless devices becomes faster, more secure, and scalable, some believe that m-commerce will surpass wire line e-commerce as the method of choice for digital commerce transactions. This may well be true for the Asia-Pacific where there are more mobile phone users than there are Internet users. Industries affected by m-commerce include:
1) Financial services:

Including mobile banking (when customers use their handheld devices to access their accounts and pay their bills), as well as brokerage services (in which stock quotes can be displayed and trading conducted from the same handheld device);

2) Telecommunications:

In which service changes, bill payment and account reviews can all be conducted from the same handheld device;

3) Service/retail:

As consumers are given the ability to place and pay for orders on-the-fly;

4) Information services:

Which include the delivery of entertainment, financial news, sports figures and traffic updates to a single mobile device?¹

Generally M-commerce is the use of mobile services to interact and transact. M-commerce is frequently referred as ‘subset of all E-commerce’; hence while talking about Ecommerce, we cannot ignore the importance of m-commerce in India. In India, there are total 12.45% of mobile subscribers, as compared to the Broadband subscriber penetration of 0.2% and the Internet user penetration of 2.6%. Mobile subscribers can get access to Internet immediately without any plug in. M-commerce is rapidly becoming an easy and affordable channel for reaching and attracting the customers.² Advantages of m-commerce have been identified:

i. **Immediacy:**

Consumers are constantly moving, working, commuting, travelling, socializing and shopping. M-commerce lets them buy goods and services as soon as the need arises.

ii. **Connectivity:**

¹: Zorayda Ruth B. Andam,(2003), e-commerce and e-Business, e-ASEAN Task Force and the UNDP Asia Pacific Development Information Programme (UNDP-APDIP, University of the Philippines, p10-14
²: (www.chillibreeze.com /articles_various)
Users sharing a common location or interest can be instantly connected via text messaging and mobile chat capabilities. Advertisers can use such access to promote products and make special offers with the expectation that subscribers will answer and listen to their messages.

iii. **Localization:**

With the deployment of positioning technologies, such as the global positioning system (GPS), companies can know users’ whereabouts and will be able to offer goods and services specific to their location.

iv. **Data portability:**

Users can store profiles of products, company addresses, information about restaurants and hotels, banking details, payment and credit card details, and security information, and access these when needed for purchases or for making contact, all from their mobile handsets.¹

### 1.4- Types of E-Commerce Applications

Although there are many different types of e-commerce applications, we can group them according to categories. The following paragraphs shall describe five different categories of electronic commerce applications and the factors that might influence the adoption of these applications.  1-Electronic Advertising 2- Payment System 3- Electronic Marketing 4- Customer Support Service 5- Order and Delivery

The following table shall describe five different categories of electronic commerce applications in small and medium enterprises.

Table 1.1: five different categories of electronic commerce applications

<table>
<thead>
<tr>
<th>Different Applications of E-commerce</th>
<th>Description</th>
<th>Researchers</th>
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<tbody>
<tr>
<td><strong>Electronic Advertising</strong></td>
<td>✓ Provide product information to customers</td>
<td>Block et al. (1996)</td>
</tr>
<tr>
<td></td>
<td>✓ Online electronic brochures or buying guides</td>
<td>Soh et al. (1997)</td>
</tr>
<tr>
<td></td>
<td>✓ Display only a range a products which are relevant to the particular customer</td>
<td></td>
</tr>
<tr>
<td><strong>Electronic Customer Support Service</strong></td>
<td>Online help- Frequently Asked Question</td>
<td>Turban et al. (2000)</td>
</tr>
<tr>
<td></td>
<td>✓ Online products update</td>
<td>Ainin, (2000)</td>
</tr>
<tr>
<td></td>
<td>✓ Handling customers feedback/queries online</td>
<td>Fatimah, et al. (2000)</td>
</tr>
<tr>
<td><strong>Electronic Marketing</strong></td>
<td>✓ Allowing a customer to contact a sales office</td>
<td>Arie et al (1995)</td>
</tr>
<tr>
<td></td>
<td>✓ Share information with competitors, customers and suppliers</td>
<td>Block et al (1996)</td>
</tr>
<tr>
<td></td>
<td>✓ Using internet to find out customers’ needs and wants</td>
<td>Johnson, (2003)</td>
</tr>
<tr>
<td></td>
<td>✓ Achieving customer satisfaction through the electronic channel</td>
<td>Smith &amp; Chaffey (2005)</td>
</tr>
<tr>
<td><strong>Electronic Payment System</strong></td>
<td>✓ Electronic Fund Transfer(EFT)</td>
<td>Lawal, (2010)</td>
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<tr>
<td></td>
<td>✓ Online credit card processing</td>
<td>Block et al. (1996)</td>
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<td></td>
<td>✓ Electronic money</td>
<td>Zwass, (1998)</td>
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<tr>
<td></td>
<td>✓ Smart and prepaid card</td>
<td>Fatimah, et al. (2000)</td>
</tr>
<tr>
<td><strong>Electronic Order and Delivery</strong></td>
<td>✓ Coordinating procurement with suppliers online</td>
<td>Johnson, (2003)</td>
</tr>
<tr>
<td></td>
<td>✓ On-line ordering of software products</td>
<td>Oakes (2002)</td>
</tr>
<tr>
<td></td>
<td>✓ Lower costs per business transaction</td>
<td>Turban et al. (2000)</td>
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<tr>
<td></td>
<td>✓ Tracking incoming and outgoing goods delivery</td>
<td>Fahri and Omar (2001)</td>
</tr>
<tr>
<td></td>
<td>✓ Online order entry and delivery</td>
<td></td>
</tr>
<tr>
<td></td>
<td>✓ Electronic Data Interchange(EDI)</td>
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</table>

1.4.1- Electronic Advertising

E-commerce is changing all business functional areas and their important tasks, ranging from advertising to paying bills. The first use of electronic commerce is to provide product information to customers, through on-line electronic brochures or buying guides. This can be seen as an additional marketing channel, allowing reaching a maximum number of customers. The advantages of electronic commerce as a way to deliver product information is its availability anytime, anywhere, provided the customer has the right infrastructure (e.g. PC, modem, online service) to access this information. But using an electronic medium also allows for interactivity and customization. Different ways to customize the advertising content, based on the customer profile or input, are to change the content description (simple or complex), display only a range a products which are relevant to the particular customer, change the price (e.g. discount for club members), allow for new functionality in some cases (e.g. coupon available only in certain conditions) or change the path used to navigate in the service.¹

1.4.2- Electronic Payment System

Electronic business transactions can only be successful if financial exchanges between buyers and sellers can occur in a simple, universally accepted, safe and cheap way. Various systems have been proposed some of them based on traditional mechanisms (e.g. credit cards accounts) while others rely on new designs, such as electronic money. The key here will be to find a few widely accepted mechanisms, which can be used by most actors. The recent agreement between MasterCard and Visa on one security standard for credit card transactions

over the Internet, and its backing by most major software vendors is one step in the right direction. This doesn't diminish the need for more specialized systems, for instance to allow micro-transactions, the exchange of very small amounts of money (a few cents) in exchange for information or services. These new payment mechanisms will in turn enable new business models such as pay-per-article newspapers.¹

The development of electronic money (E-money) is the subject of much work and popular excitement. Called reengineering of money by some ¹(Clemons, Croson, & Weber), it may be expected to further limit the role of cash in the economy. E-money in its various forms is expected to become a substitute for credit (e.g., credit cards) and debit instruments (e.g., checks or debit cards), or for bank notes and coins that offer anonymity to the owner (within certain legal limits in the United States) at the considerable expense of handling to commercial organizations. At present, the money supply of the United States surpasses $4 trillion, but only one-tenth of that, $400 billion, exists in physical form of bills and coins. Moreover, two-thirds of even that amount has been taken out of circulation, largely in the form of $100 bills, by various agents (many of them abroad) uninterested in banking. Thus, most of the currency extant today in the United States and other developed countries already exists only as magnetized domains in the secondary storage of a computer system. Many actors other than buyers and sellers have a vested interest in the course the development of E-money will take; these include the vendors of the new instruments, but also the banks of issue, regulators, and the agencies entrusted with the national security and law enforcement.²

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1.4.3- Electronic Marketing

Any transfer of goods or services from seller to buyer (the broadest definition of marketing) that involves one or more electronic methods or media can be considered electronic marketing (EM). Electronic buying and selling started by telegraph in the nineteenth century. With the advent and mass acceptance of the telephone, radio, TV, and then cable, electronic media have become the dominant marketing force.¹ Kotler² defines marketing “a societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others.” He further elaborate that marketing is the task of creating, promoting and delivering goods and services to consumers and customers. In order to accomplish the task of marketing, Kotler stress that the marketers uses three kind of marketing channels, namely communication channels, distribution channel and selling channels. Traditionally, the communication channels are newspapers, magazines, radio, TV, mail, telephone, billboards, word of mouth, posters, Video tape, CD and audio tapes. Normally, the conventional communication methods are slow and no interactive. However, the arrival of Internet has changed all that. With the help of the Internet, the marketers are able to use the electronic marketing channel, which provides many advantages over the conventional marketing channels. Kotler states that the five major advantages of electronic marketing are:

1. Both small and large firms can afford it.
2. No real limit on advertising space
3. Information access and retrieval are fast
4. The web site can be visited by anyone anyplace in the world

5. Shopping can be done privately and swiftly.

Turban et al. (2000) stress that a key task in electronic marketing is to look for potential and actual buyers. The Internet is a powerful and cost-effective tool for conducting market research regarding consumer behaviour and preferences, for identifying new markets, and for testing consumer interest in new products. Some of the online tools used for market research are online questionnaire, online games, quizzes, sweepstakes and other methods.

1.4.4- Electronic Customer Support Service

According to Turban et all, customer service should be approached as a life cycle process with the following four phases:

Phase 1:
Requirement- Assisting the customer to determine needs (photographs of products, articles, review, downloadable demonstration files)

Phase 2:
Acquisition - helping the customer to acquire a product or service (online order entry and delivery)

Phase 3:
Ownership- supporting the customer on ongoing basis (Interactive online user groups, online technical support, FAQ, newsletter and online registration and renewal)

Phase 4:
Retirement- helping the client to dispose of service or product (online resale and ads)

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Turban et al further illustrate the latest development in online customer support service with the following example:

“Dell, Compaq, and other computer vendors provide an electronic help desk for their customers. Customers e-mail queries and gets answers within a few hours. In the future, such services will be automated, using intelligent agents to allow customers to determine and resolve problems by themselves.”

1.4.5- Electronic Order and Delivery

Electronic commerce has enabled us to shop from home, avoiding the hassles of traffic jam and save us time. Moreover, we can order products from any place of the world, 24 hours a day. According to Turban⁴, electronic retailing is mushrooming on the web. There are two types of vendors, solo storefronts and electronic mall. Solo storefronts maintain their own Internet name and Web site. Examples of these are Amazon.com and Virtual Vineyard. On the other hand, an electronic mall is a collection of individual shops under one Internet address. One example is E-plaza (www.eplaza.com).

Electronic storefront cannot merely exist in a vacuum; products need to be delivered to the customers who have place an order. The solution is integrated logistics. With integrated logistics, the products can be delivered to the customers seamlessly from cyber commands. Many companies have established strategic alliances with large shipment companies such as FedEx and DHL to provide Just-in-time delivery.

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1.5- Benefits of e-commerce

The previous sections have included discussions about what e-commerce is and its impact, but what are the benefits of e-commerce? What does it offer and why do it? The benefits of e-commerce can be seen to affect three major stakeholders: organisations, consumers and society.

1.5.1- Benefits of e-commerce to organisations

I) *International marketplace:*

What used to be a single physical marketplace located in geographical area has now become a borderless marketplace including national and international markets. By becoming e-commerce enabled, businesses now have access to people all around the world. In effect all e-commerce businesses have become virtual multinational corporations.

II) *Operational cost savings:*

The cost of creating, processing, distributing, storing and retrieving paper-based information has decreased.

III) *Mass customisation:*

E-commerce has revolutionised the way consumers buy good and services. The pull-type processing allows for products and services to be customised to the customer’s requirements. In the past when Ford first started making motor cars, customers could have any colour so long as it was black. Now customers can configure a car according to their specifications within minutes on-line via the www.ford.com website.

IV) *Enables reduced inventories:*


And overheads by facilitating ‘pull’-type supply chain management – this is based on collecting the customer order and then delivering through JIT (just-in-time) manufacturing. This is particularly beneficial for companies in the high technology sector, where stocks of components held could quickly become obsolete within months. For example, companies like Motorola (mobile phones), and Dell (computers) gather customer orders for a product, transmit them electronically to the manufacturing plant where they are manufactured according to the customer’s specifications (like colour and features) and then sent to the customer within a few days.

V) **Lower telecommunications cost:**

The Internet is much cheaper than value added networks (VANs) which were based on leasing telephone lines for the sole use of the organisation and its authorised partners. It is also cheaper to send a fax or e-mail via the Internet than direct dialling.

VI) **Digitisation of products and processes:**

Particularly in the case of software and music/video products, which can be downloaded or e-mailed directly to customers via the Internet in digital or electronic format?

VII) **No more 24-hour-time constraints:**

Businesses can be contacted by or contact customers or suppliers at any time.

**1.5.2- Benefits of e-commerce to consumers**

I) **24/7 access:**

 Enables customers to shop or conduct other transactions 24 hours a day, all year round from almost any location, For example checking balances, making payments, obtaining travel and other information. In one case a pop star set up web cameras in every room in his house, so
that he could check the status of his home by logging onto the Internet when he was away from home on tour.

II) **More choices:**

Customers not only have a whole range of products that they can choose from and customise, but also an international selection of suppliers.

III) **Price comparisons:**

Customers can ‘shop’ around the world and conduct comparisons either directly by visiting different sites, or by visiting a single site where prices are aggregated from a number of providers and compared (for example www.moneyextra.co.uk for financial products and services).

IV) **Improved delivery processes:**

This can range from the immediate delivery of digitised or electronic goods such as software or audio-visual files by downloading via the Internet, to the on-line tracking of the progress of packages being delivered by mail or courier.

V) **An environment of competition:**

Where substantial discounts can be found or value added, as different retailers vie for customers. It also allows many individual customers to aggregate their orders together into a single order presented to wholesalers or manufacturers and obtain a more competitive price (aggregate buying), for example www.letsbuyit.com.

1.5.3- **Benefits of e-commerce to society**

I) **Enables more flexible working practices:**

Which enhances the quality of life for a whole host of people in society, enabling them to work from home? Not only is this more convenient and provides happier and less stressful
working environments, it also potentially reduces environmental pollution as fewer people have to travel to work regularly.

II) Connects people:

Enables people in developing countries and rural areas to enjoy and access products, services, information and other people which otherwise would not be so easily available to them.

III) Facilitates delivery of public services:

For example, health services available over the Internet (on-line consultation with doctors or nurses), filing taxes over the Internet through the Inland Revenue website.

1.6- Limitations of e-commerce

There was much hype surrounding the Internet and e-commerce over the last few years of the twentieth century. Much of it promoted the Internet and e-commerce as the panacea for all ills, which raises the question, are there any limitations of e-commerce and the Internet? Isaac Newton’s 3rd Law of Motion, ‘For every action there is an equal and opposite reaction’ suggests that for all the benefits there are limitations to e-commerce. These again will be dealt with according to the three major stakeholders: organisations, consumers and society.

1.6.1- Limitations of e-commerce to organisations

I) Lack of sufficient system security, reliability, standards and communication protocols:

There are numerous reports of websites and databases being hacked into, and security holes in software. For example, Microsoft has over the years issued many security notices and ‘patches’ for their software. Several banking and other business websites, including Barclays
Bank, Powergen and even the Consumers’ Association in the UK, have experienced breaches in security where ‘a technical oversight’ or ‘a fault in its systems’ led to confidential client information becoming available to all.

II) Rapidly evolving and changing technology:

So there is always a feeling of trying to ‘catch up’ and not be left behind.

III) Under pressure to innovate:

And develop business models to exploit the new opportunities which sometimes lead to strategies detrimental to the organisation. The ease with which business models can be copied and emulated over the Internet increases that pressure and curtails longer-term competitive advantage.

IV) Facing increased competition:

From both national and international competitors often leads to price wars and subsequent unsustainable losses for the organisation.

V) Problems with compatibility of older and ‘newer’ technology:

There are problems where older business systems cannot communicate with web based and Internet infrastructures, leading to some organisations running almost two independent systems where data cannot be shared. This often leads to having to invest in new systems or an infrastructure, which bridges the different systems. In both cases this is both financially costly as well as disruptive to the efficient running of organisations.

1.6.2- Limitations of e-commerce to consumers

I) Computing equipment:

Is needed for individuals to participate in the new ‘digital’ economy, which means an initial capital cost to customers.
II) A basic technical knowledge:

Is required of both computing equipment and navigation of the Internet and the World Wide Web?

III) Cost of access to the Internet:

Whether cost of dial-up or broadband tariffs is low or high

IV) Cost of computing equipment:

Not just the initial cost of buying equipment but making sure that the technology is updated regularly to be compatible with the changing requirement of the Internet, websites and applications.

V) Lack of security and privacy of personal data:

There is no real control of data that is collected over the Web or Internet. Data protection laws are not universal and so websites hosted in different countries may or may not have laws which protect privacy of personal data.

VI) Physical contact and relationships are replaced by electronic processes:

Customers are unable to touch and feel goods being sold on-line or gauge voices and reactions of human beings.

VII) A lack of trust because they are interacting with faceless computers

1.6.3- Limitations of e-commerce to society

I) Breakdown in human interaction:

As people become more used to interacting electronically there could be an erosion of personal and social skills which might eventually be detrimental to the world we live in where people are more comfortable interacting with a screen than face to face.

II) Social division:
There is a potential danger that there will be an increase in the social divide between technical haves and have-nots – so people who do not have technical skills become unable to secure better-paid jobs and could form an underclass with potentially dangerous implications for social stability.

**III) Reliance on telecommunications infrastructure, power and IT skills:**

Which in developing countries nullifies the benefits when power, advanced telecommunications infrastructures and IT skills are unavailable or scarce or underdeveloped?

**IV) Wasted resources:**

As new technology dates quickly how you do dispose of all the old computers, keyboards, monitors, speakers and other hardware or software?

**V) Facilitates Just-In-Time manufacturing:**

This could potentially cripple an economy in times of crisis as stocks are kept to a minimum and delivery patterns are based on pre-set levels of stock which last for days rather than weeks.¹

### 1.7- Difference between e-commerce and e-business

While some use e-commerce and e-business interchangeably, they are distinct concepts. In e-commerce, information and communications technology (ICT) is used in inter-business or inter-organizational transactions (transactions between and among firms/organizations) and in business-to-consumer transactions (transactions between firms/organizations and individuals). In e-business, on the other hand, ICT is used to enhance one’s business. It

includes any process that a business organization (either a for-profit, Governmental or non-profit entity) conducts over a computer-mediated network. A more comprehensive definition of e-business is: “The transformation of an organization’s processes to deliver additional customer value through the application of technologies, philosophies and computing paradigm of the new economy.”

Three primary processes are enhanced in e-business:

1. **Production processes:**
   - Which include procurement, ordering and replenishment of stocks; processing of payments; electronic links with suppliers; and production control processes, among others;

2. **Customer-focused processes:**
   - Which include promotional and marketing efforts, selling over the Internet, processing of customers’ purchase orders and payments, and customer support, among others; and

3. **Internal management processes:**
   - Which include employee services, training, internal information-sharing, video-conferencing, and recruiting? Electronic applications enhance information flow between production and sales forces to improve sales force productivity. Workgroup communications and electronic publishing of internal business information are likewise made more efficient.
1.8- Difference between Internet economy, e-commerce and e-business

The Internet economy is a broader concept than e-commerce and e-business. It includes e-commerce and e-business.

The Internet economy pertains to all economic activities using electronic networks as a medium for commerce or those activities involved in both building the networks linked to the Internet and the purchase of application services such as the provision of enabling hardware and software and network equipment for Web-based/online retail and shopping malls (or “e-malls”). It is made up of three major segments: physical (ICT) infrastructure, business infrastructure, and commerce.

1.9- Growth of E-Commerce in India

The Indian Software and Services industry is the fastest growing sector in India. This segment accounts for 16% of the country’s overall exports, for 500,000 jobs, and about US$1.6 billion in investments. Home Internet usage in India grew 19% from April 2006 to April 2007. In April 2007 it became 30.32 million and the e-Marketer accepts that there will be 71 million total Internet users in India by 2011. India is showing tremendous growth in the e-commerce. Rival tradeindia.com has 700,000 registered buyers and it has the growth rate of 35% every year which is likely to double in the year 2008. Indiamart.com claims revenues of Rs. 38 crores and has a growing rate of 50 every year. It receives around 500,000 enquiries per month. Undoubtedly, with the middle class of 288 million people, online shopping shows unlimited potential in India. The real estate costs are touching the sky. The travel portals'
share in the online business contributed to 50% of Rs 4800 crore online market in 2007-08. The travel portal MakeMyTrip.com has attained Rs 1000 crores of turnovers which is around 20% of total e-commerce market in India. Further an annual growth of 65% has been anticipated annually in the travel portals alone. The low cost of the PC and the growing use of the Internet has shown the tremendous growth of Ecommerce in India, in the recent years. According to the Indian Ecommerce Report released by Internet and Mobile Association of India (IAMAI) and IMRB International, “The total online transactions in India was Rs. 7080 crores (approx $1.75 billion) in the year 2006-2007 and expected to grow by 30% to touch 9210 crores (approx $2.15 billion) by the year 2007-2008. According to a McKinsey-Nasscom report the e-commerce transactions in India are expected to reach $100 billion by the 2008. Although, as compared to the western countries, India is still in its initial stage of development.¹

1.9.1- Business-to-Business Transactions in India

According to Outlook Business magazine (May 20, 2008), the total Business to business transactions in India in the year 2008 are likely to be US$100 billion and Business to business marketplaces could account for $15 to $20 billion out of that. India’s largest Business to business portal Trade India, maintained by Infocom Network Ltd, also stated that e-commerce transactions in India show a growth rate of 30 percent to 40 percent and will soon reach the $100 billion mark. In near future, e-commerce is going to play a major role in multimedia, entertainment and fashion industry. The foreign branded companies are eager to take full advantage of the growing Indian market and are trying to create market for their products over the net. Gucci Co. an Italian iconic fashion and leather goods label is eager to

¹: (http://chillibreeze.com/articles_various/Ecommerce.asp)
make its hold in India with Business to business transactions. Some of the key Business to business exchanges in India are tradeindia.com, matexnet.com, Alibaba.com, AuctionIndia.com, Indiamart.com, TeaAuction.com, MetalJunction.com, etc.

1.9.2- Business to Consumer Transactions in India

Although business-to-business transactions play an important part in e-commerce market, a share of e-commerce revenues in developed countries is generated from business to consumer transactions. Railway and Airlines have played a vital role in e-commerce transactions in India. Travel portals are exploding in India. Recently MakeMyTrip.com has shown Rs 1000 crores of turnover. Travel alone constituted 50% of Rs 4800 crore online market in 2007-08. In India, online services like ticketing, banking, tax payment, bill payment, hotel room booking, entertainment, online games, matrimonial sites, job sites, etc. are showing signs of development in business-to-customer transactions. There has been tremendous boost in the online business with the stock exchange coming online. Online valentine gifts and Diwali gifts are also becoming popular along with the birthday cakes. No doubt, the total value of the Business to business transactions is much larger than that of the Business to Consumer transactions, because typically Business to business transactions is of much greater value than Business to Consumer transactions. It seems that the Business to Consumer market in India will take time to grow as compared to the Business to business market.
1.9.2.1-Summarizing: Size of Business to Consumer and Consumer-to-Consumer E-Commerce Market in India

The total market size of Business to Consumer and Consumer-to-Consumer E-Commerce industry in India is around Rs. 7080 crores at the end of 2006-07. It is expected to rise to Rs. 9210 crores by the end of 2007-08.

Following is the break up for Business to Consumer and Consumer-to-Consumer E-Commerce Industry in India for the year 2006-07 and 2007-08:

<table>
<thead>
<tr>
<th>MARKET SIZE FOR THE YEAR</th>
<th>2006-07 (Figures in Rs. Crores)</th>
<th>2007-08 (Figures in Rs Crores.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online Travel Industry</td>
<td>5,500</td>
<td>7,000</td>
</tr>
<tr>
<td>Online Non-Travel Industry</td>
<td>1,580</td>
<td>2,210</td>
</tr>
<tr>
<td>e-Tailing</td>
<td>850</td>
<td>1,105</td>
</tr>
<tr>
<td>Online Classifieds</td>
<td>540</td>
<td>820</td>
</tr>
<tr>
<td>Pain Content Subscription</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>Digital Downloads</td>
<td>170</td>
<td>255</td>
</tr>
<tr>
<td><strong>Total B2C/ C2C E-Commerce Market</strong></td>
<td><strong>7,080</strong></td>
<td><strong>9,210</strong></td>
</tr>
</tbody>
</table>

The Online Travel Industry has been driving the growth in the Business to Consumer E-Commerce industry, owing to entry of low-cost airlines and increase in online bookings for railways and hotels. With an increase in mobile subscribers across the country, the digital downloads segment is expected to be one of the main contributors to the Online Non-Travel Industry in future.
1.10- E-commerce and the Government of India

The government is aware of the increasing misuse of the electronic media and online frauds. Therefore, the government of India has passed the Information and Technology Act to keep a check on the transactions carried on via the electronic media and to make the process of Ecommerce safe and reliable. The Act imposes heavy penalties and punishment on those who try to misuse this channel for personal benefit or to defraud others. The law has also established the authentication of the electronic records. Increase in the Cyber crimes in E-commerce is causing concern among the credit card users in India. Now, the government has opened Cyber Crime Police Station. Online complaints can be filed for both cyber and Non Cyber crimes, through an online form which is available at http://www.bcp.gov.in/english/complaints/newcomplaint.asp to accept complaints filed with digital signatures. The Government of India has decided to impose service tax on E-Commerce transaction and that will result in making the net shopping expensive. How to attract Indian “Online Customers”?

Goods should have value for the customer along with quality.

Security is promised.

Establishing trust and winning confidence.

Providing easy guidance

Clear information regarding delivery time

Articles ordered and the article delivered should not vary.

Giving discount offer and other gift items

Limited personal information

Providing value added service at lower prices.

Full information regarding the product is simple words.
Innovative products

Social shopping phenomenon

Providing price comparison

Indian customers want to buy things that do not cost them much.¹

1.11- Concept of Organizational Performance

Organizational performance is probably the most widely used dependent variable in organizational research today yet at the same time it remains one of the most vague and loosely defined constructs.² Measuring organizational performance is difficult, especially when what has to be measured keeps changing.³

Many small and medium-sized enterprises are becoming ever more focused on their organizational performance. Organizational performance comprises the actual results or output of an organization as measured against its intended results or outputs. Typically, there are different ways to characterize various types of organizational performance in small and medium sized enterprises. The following paragraph briefly shows the different types of them.

Dyer and Reeves (1995)⁴, proposed four possible types of measurement for organizational performance in small and medium-sized manufacturing firms: 1) human resource outcomes (job satisfaction, absenteeism, turnover), 2) organizational outcomes (quality, productivity,

¹: (http://chillibreeze.com/articles_various/Ecommerce.asp)
service), 3) financial accounting outcomes (Return on assets, profitability), and 4) capital market outcomes, (stock price, growth, returns).

Pierre et al. (2009)\(^1\) argued that organizational performance encompasses three specific areas of firm outcomes: (a) financial performance (profits, return on assets, return on investment, etc.); (b) product market performance (sales, market share, etc.); and (c) shareholder return (total shareholder return, economic value added, etc.)


According to literature review, most common types of organizational performance measures that used in recent empirical research are included: Financial or accounting performance, operational performance and market-based performance\(^4\), \(^5\), \(^6\) & \(^7\).

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Table 1.3: Most common types of organizational performance measures

<table>
<thead>
<tr>
<th>Financial or Accounting performance</th>
<th>Profitability</th>
<th>Return on assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Return on equity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Return on sales</td>
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<tr>
<td></td>
<td></td>
<td>Net income</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Return on investment</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Growth</td>
<td>Sales growth rate</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Employee growth</td>
</tr>
<tr>
<td></td>
<td>Leverage, Liquidity and Cash Flow</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Growth rate of operating cash flow</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cash flow return on equity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cash flow return on assets</td>
</tr>
<tr>
<td></td>
<td>Efficiency</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>asset turnover</td>
</tr>
<tr>
<td></td>
<td></td>
<td>net profit per employee</td>
</tr>
<tr>
<td></td>
<td></td>
<td>net profit per square foot</td>
</tr>
<tr>
<td></td>
<td></td>
<td>sales per employee</td>
</tr>
<tr>
<td></td>
<td></td>
<td>sales per square foot</td>
</tr>
<tr>
<td></td>
<td>market share</td>
<td>Respondent assessment</td>
</tr>
<tr>
<td></td>
<td>new product introduction</td>
<td></td>
</tr>
<tr>
<td></td>
<td>product/service quality</td>
<td></td>
</tr>
<tr>
<td></td>
<td>marketing effectiveness</td>
<td></td>
</tr>
<tr>
<td></td>
<td>customer satisfaction</td>
<td></td>
</tr>
<tr>
<td>Operational performance</td>
<td>Return to shareholders</td>
<td></td>
</tr>
<tr>
<td></td>
<td>market value added</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Annual Return</td>
<td></td>
</tr>
<tr>
<td>Market-based performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Return to shareholders</td>
<td></td>
</tr>
<tr>
<td></td>
<td>market value added</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Annual Return</td>
<td></td>
</tr>
</tbody>
</table>

Source: Carton and Hofer (2006)¹

1.11.1- Financial and Accounting Performance

Performance is usually assessed with accounting-based measures (e.g. profitability measures such as return on assets, return on investment, return on sales, return on equity), market-based measures (e.g. stock market returns) or a mixture of accounting- and market-based measures (e.g. price-earnings ratio). Accounting-based criteria are common in performance evaluations. Popular management journals (such as Business Week, Management Today) use profitability criteria for performance-league tables. Also, in academic performance studies profitability measures are the most often used \(^1\) & \(^2\). Accounting-based figures can be misleading because they might have been manipulated to look good. A lack of consistency in corporate accounting methods (e.g. with regard to the treatment of inflation, inventory valuation, depreciation or intangible assets) and a lack of standardization in international accounting conventions makes interpretations as well as comparisons between organizations difficult. A further shortcoming of all accounting-based performance measures is their backward-looking focus \(^3\). Data of past years reveal little about the future potential of a firm. The 'short-termism' of the accounting-based measures relates to another point of criticism. Profit can easily be raised in the short-term by cutting expenditures (e.g. for advertising or R&D), but that kind of practice might be

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harmful in the long-run. Thus, the question is if ‘firm performance’ is truly assessed when merely relying on accounting based measures.\footnote{Ursula Glunk and Celeste P.M. Wilderom, (1997), Organizational Effectiveness = Corporate Performance? Why and how two research traditions need to be merged, Tilburg University, Faculty of Economics and Business Administration}

\subsubsection{1.11.2- Market-based Performance}

Given the criticism with regard to accounting-based measures, several authors propose market-based measures as better overall performance indicators\footnote{McGuire, J.; T. Schneeweis & Hill, J. (1986), an Analysis of Alternative Measures of Strategic Performance. Advances in Strategic Management, 4, 127-154.} &\footnote{Habel, S. (1992) Strategische Unternehmensführung im Lichte der empirischen Forschung. München: Verlag Barbara Kirsch.}. Stock-market data are assumed to reflect investor’s estimations of future firm potential and thus focus on the long-term value of the enterprise. Under the assumption that investors evaluate firms appropriately (perfect markets), stock-market data are seen as sensible indicators of corporate performance for listed firms. However, the idealistic assumption of perfect markets and the high percentage of unlisted firms pose serious limitations to their widespread use. The relation of market- and accounting-based measures is unclear. A number of empirical studies have found accounting- and market-based measures of performance to be essentially uncorrelated; factor analyses revealed two independent dimensions of financial/economic performance\footnote{Meyer, M. W., & Gupta, V. (1994), the performance paradox. Research in Organizational Behavior, 16, 309-369.}. Other studies, however, found correlations between the two types of measures\footnote{Douma, S.W. & R. Kabir (1995), Spiegeltje, Spiegeltje aan de Wand. University of Tilburg: Working paper.}, as well as a
single underlying construct of firm financial performance\(^1\). The convergence of accounting- and market-based performance measures seems to depend on time and context factors: Fryxell & Barton (1990)\(^2\) found a higher convergence in times of uncertainty; Douma & Kabir (1995)\(^3\) found a significant correlation only for large firms. Further research in this area has to solve this issue of dimensionality. In general it can be said that both types of measures have their limitations and – where possible - should be combined.

Accounting measures refer to variables that can be derived from the three basic financial statements of all businesses, namely balance sheets, income statements and statements of cash flows. Most accounting measures are generally expressed as values, ratios or percentages. The calculation of the amounts presented in reporting companies’ (those companies required to file periodic reports with the Securities and Exchange Commission) financial statements in the United States is based upon generally accepted accounting principles (GAAP) consistently applied both over time and across companies. While it would seem that following a common set of rules for reporting financial results would produce uniformity in presentation among similar companies, there is sufficient variation both in the nature of financial transactions and interpretation by those applying GAAP, to result in significant variation in the way companies present their financial information, often making comparison across companies difficult\(^3\).

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1.11.3- Operational Performance

According to Carton and Hofer (2006)\(^1\) operational performance can be further subcategorized into market share, new product introduction, product/service quality, marketing effectiveness and customer satisfaction. In addition to financial/economic performance criteria, Venkatraman & Ramanujam (1986)\(^2\) propose operational performance measures such as market share, new product introduction, product/service quality and marketing effectiveness. Comparable approaches are the balanced scorecard\(^3\) or the business-model approaches\(^4\), which include financial as well as operational criteria relating to value for customers, innovation and internal business improvement. These models promote the linking of data from several financial and operational measures in order to see if improvement in one area has been achieved at the expense of another. The latter presumption relates exactly to the main point made by the (earlier discussed) competing values approach.

Operational performance indicators come close to what other authors label 'critical success factors'\(^5\)&\(^6\). There is, however, a conceptual difference: operational performance variables are conceived as indicators of the performance construct itself, whereas critical-success-factors are regarded as predictors of performance. This

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conceptual difference relates to a crucial issue both in organizational effectiveness and in corporate performance research: defining the boundaries of the construct including the distinction between predictors (means) and criteria (ends).¹

¹: Ursula Glunk and Celeste P.M. Wilderom, (1997), Organizational Effectiveness = Corporate Performance? Why and how two research traditions need to be merged, Tilburg University, Faculty of Economics and Business Administration