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E-commerce and corporate strategy: an executive perspective

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Abstract

Despite the recent downturn in Internet-based business, the dollar value of electronic commerce (EC) transactions is increasing at an astounding rate. In consumer-to-business applications, the amount of money spent by online shoppers is nearly doubling every year and is expected to approach US$ 100 billion by 2004 while business-to-business sales is expected to reach US$ 1.3 trillion by 2003. These opportunities, powered by the evolving computing and communication technologies, enable companies to gain tremendous operational efficiencies, personalization, and information based products and services. More and more conventional brick and mortar firms see e-commerce initiatives as offering strategic opportunities to transcend their normal operations. This study proposes that e-commerce initiatives are important strategic initiatives and that firms with a stronger EC market orientation will be more successful. Content analysis of CEO's letter to shareholders of 145 Fortune 500 firms was conducted to evaluate the importance of EC and strategic orientation. The results provide support to the study's propositions and indicate that EC must be pursued carefully as a strategic initiative rather than as an appendage to an existing organization.

Keywords: E-commerce; Strategic orientation; Market orientation; Corporate performance; CEO letter to shareholders; Customer orientation; Competitor orientation; Content analysis

1. Introduction

The emergence of e-commerce is creating fundamental changes to the way that business is conducted. These changes are altering the way in which every enterprise acquires wealth and creates shareholder value. The myriad of powerful computing and communications technology enabling e-commerce allow organizations to streamline their business processes, enhance customer service and offer digital products and services. This shift in underlying marketing fundamentals is now the driving force that is luring many organizations to embrace e-commerce. However, as they are learning, organizations must proceed with caution, as the road to e-commerce is littered with failed initiatives. A plunge in the share prices of dot com companies sent the tech-heavy NASDAQ index into almost free fall; down over 70% of the record high of 10 March 2000. Though an economic slowdown was apparently likely, one thing was painfully clear; most Internet "pure plays" could not find sustainable profitability by operating only as e-commerce organizations simply by excelling in the management of technology, information, and the consumer behavior. Similarly, established companies that viewed e-commerce as a stand-alone appendage to their business

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would be less likely to succeed in these efforts. Therefore, it is our contention that firms must clearly recognize their e-commerce initiatives as an integral part of their strategic objectives. In addition, we propose that firms that carefully evaluate their customer and competitor base, as a part of strategic thinking, will reap more benefits.

In the process of forming a corporate strategy to respond to the challenges of environmental change, normative thinking requires that a firm should analyze its industry forces and value-chain activities in order to identify opportunities for IT innovation. Furthermore, it should examine assets, resources, and competency of the staff and identify those mechanisms that confer a distinctive advantage over their rivals. Choice of appropriate strategy could then lead to superior performance. In the case of e-commerce, firms implementing such initiatives should carefully analyze external forces, internal resources and their core competencies. The outcome of this process should be reflected through a tight integration between corporate strategy and e-commerce. This study focuses on this outcome and its relationship with corporate performance.

Specifically, the study investigated the extent to which large successful companies adopted an e-commerce posture that was integrated with their corporate strategy. Thus, we examined the qualitative portion of the company's Annual Report: the CEO's Letter to the Shareholder, using content analysis. This letter presents a unique observation point for the researcher interested in examining corporate strategy and holds potential for determining the innovative methods of the top manager's strategy [19]. Bettman and Weitz [6] argue that the CEO's letter, which is a standardized component of the report, provides comparable and more objective data on an organization than would interviews. Pfeffer [39], recognizing the utility of the CEO's letter as a source of "objective" data on organizations, has called for increased research use of annual report data.

The study uses the CEO's letter as input to address the following questions:

1. Is the importance of e-commerce to corporate strategy reflected in improved corporate performance?
2. Does a firm's strategic orientation with respect to e-commerce have an impact on its performance?

2. Background and propositions

2.1. The perceived importance of e-commerce

The emergence of E-commerce has created a novel marketplace. However, definitions of what constitutes e-commerce vary [35,44] Extant studies have referred to the term "e-commerce marketplace" either from a system-oriented [3] or a market-structure perspective [33]. Bakos argued that it is the electronic market systems that create a space where buyers and sellers converge. Malone et al. referred to it as a corresponding governance mechanism. Zwass [51,52] proposed an architecture that embraces the aforementioned perspectives as two components of an e-commerce structure. E-commerce related IT, in this framework, serves as the infrastructure that leads to the rise of e-commerce. At the top level, resulting from the impact of e-commerce operation is the issue of governance mechanism. Support for electronic marketplaces and electronic hierarchies can be found at the bottom level. In-between these levels there are application layers that provide value-added activities with respect to information sharing, business transactions, and relationship building. Thus, e-commerce includes not only buying and selling goods, but also various processes within and across organizations. We define e-commerce as the use of computing and communication technologies to engage in a wide range of activities up and down the value-added chain, both within and outside the organization [1]. It is widely argued that e-commerce related IT, such as EDI, EFT, electronic messaging, shared corporate digital library etc. could enhance both organizational efficiency and effectiveness. In terms of *efficiency benefits*, an e-commerce application can generate internal efficiency and external coordination through changes in intra- or inter-organizational integrative processes [24]. Even before the rise of e-commerce, and particularly the Internet, companies engaged in electronic commerce using electronic data interchange (EDI) to improve their operational efficiency. Today, Internet EDI can further integrate and enhance an organization's operational efficiency. Riggins and Mukhopadhyay [43] using Chrysler as a case, has shown that the total benefits provided by electronic integration are both tangible and significant.

Effective benefits of e-commerce technology are reflected in the use of the extended information