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Electronic commerce investments, the resource-based view of the firm, and firm market value

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Abstract

Firms have embraced electronic commerce as a means of doing business, either because they see it as a way to improve efficiency, grow market share, expand into new markets, or because they view it as essential for survival. Recent research in the United States provides some evidence that the market does value investments in electronic commerce. Following research that suggests that, in certain circumstances, the market values noninnovative investments as well as innovative investments in new products, we partition electronic commerce investment project announcements into innovative and noninnovative to determine whether there are excess returns associated with these types of announcements. Apart from our overall results being consistent with the United States findings that the market values investments in electronic commerce projects, we also find that noninnovative investments are perceived as more valuable to the firm than innovative investments. On average, the market expects innovative investments to earn a return commensurate with their risk. We conclude that innovative electronic commerce projects are most likely seen by the capital market as easily replicable, and consequently have little, if any, competitive advantage period. On the other hand, we conclude from the noninnovative investment results that these types of investments are seen as being compatible with a firm's

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assets-in-place, in particular, its information technology capabilities, a view consistent with the resource-based view of the firm.
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1. Introduction

Firms have embraced electronic commerce as a means of doing business, either because they see it as a way to improve efficiency, grow market share, expand into new markets, or because they view it as essential for survival. The Organization for Economic Co-operation and Development estimates that electronic commerce sales in the United States will reach US$1000 billion per annum between 2003 and 2005, up from an estimated US$26 billion per annum in 1996–1997 (National Office for the Information Economy, 2000). Moreover, equivalent sales revenues in the Asia-Pacific were expected to rise from US$6.8 billion in 2000 to US$14 billion in 2001 (Boston Consulting Group). While investments in electronic commerce are likely to lower costs and/or increase sales, this only adds value if those benefits outweigh the costs of implementing the strategy. "[E]vidence on the benefits to firms from electronic commerce initiatives is mixed while the costs of entry are real and staggering" (Subramani and Walden, 2001, p. 136).

There is some evidence that the market values investments in electronic commerce (Subramani and Walden, 2001). A United States sample of 251 announcements of electronic commerce initiatives from October to December 1998 resulted in a 21-day mean excess return of 16.2 percent, with 7.7 percent of the return generated on the day of the announcement. For conventional firms, those deriving less than 50 percent of revenue from Internet activities, excess returns were lower, and reached 9.5 percent over event days −10 to 0. There was also evidence that electronic commerce initiatives aimed at the business-to-consumer market generated higher excess returns than those aimed at the business-to-business market, although this evidence was contrary to expectations.

We extend the work of Subramani and Walden (2001) by first testing the general proposition that the market values investments in electronic commerce projects by using a sample that explicitly excludes Internet firms, and consists of firms making investments in many forms of electronic commerce, over a 13-year period, with 54 percent of the announcements subsequent to the NASDAQ peak of 10 March 2000. The Subramani and Walden (2001) sample consists of Internet and non-Internet firms announcing investments at the height of the Internet boom. We believe that unlike the Subramani and Walden (2001) study, the results of which are threatened by the industry composition of their sample and inflated market valuations for technology during their period under examination, our study provides a more robust test of the general proposition that the market values investments in electronic commerce projects.

We also further extend the research of Subramani and Walden (2001) by partitioning electronic commerce investments into innovative and noninnovative. We define innovative

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