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Redressing the Lack of Trust within SMEs Engaging in E-Commerce Activities in Developing Countries: A Nigerian Case Study

Dr. Dili Ojukwu

Lecturer, Department of Mathematics/Computer Science/Statistics/Informatics
Federal University Ndufu-Alike Ikwo (FUNAI), Abakiliki, Ebonyi State, Nigeria

Abstract:

E-Commerce activities amongst small and medium sized enterprises (SMEs) in the developed economies of North America, Europe and some Asian countries like China, Singapore and India have increased exponentially since the inception of the Internet. Even as the global economy is experiencing a down-turn, research evidence shows that e-Commerce activities have not fared too badly compared to other economic activities.

However, SMEs in developing economies, particularly those in sub-Saharan Africa are still not much in e-Commerce activity. One of the main problems for this form of digital divide has been attributed to the issue of TRUST.

This paper, explores how TRUST contributes to the lower level of e-Commerce activities amongst SMEs in Nigeria. It also explores some solutions on how the situation can be rectified to enable SMEs in both Nigeria and some other countries in the sub-Sahara African region enjoy the benefits which e-Commerce technologies provide for those adopting them.

Keywords: *e-commerce technologies, trust strategies, developing countries, strategies, SMEs, e-business, trust transaction typology, sub-Saharan Africa, digital divide*

1. Introduction

The question of how Trust can be managed so as to maximise the potentials of e-Commerce technologies for small businesses is increasingly attracting the attention of stakeholders in Internet and online services industry. Concerns regarding privacy, online payment security, security of the enabling technologies, as well as reliability and quality of goods and services provided by online vendors seem to retard the growth rate of the Internet, especially in developing countries (Josang et al, 2005). In addition to all these concerns, Trust has also been identified as one of the critical issues confronting businesses engaging in e-Commerce activities in developing countries (DCs) (Efendioglu et al, 2005).

One major cause of this lack of trust in e-Commerce relationships in DCs is the “non-visibility” or anonymity of either the goods being exchanged or the exchanging partners themselves (Efendioglu et al, 2005). These partners can be the businesses involved (i.e. B2B), the businesses and the consumers (B2C), or for that matter, the individual owners and the end users of their products and services (C2C). “Non-visibility” imposes a lot of strains on the ability and, indeed, willingness of either the vendor or the customer to Trust one another (Ojukwu, and Georgiadou, 2007).

This becomes a huge impediment in an environment where the exchange of goods is usually conducted in an open, face-to-face environment. In this scenario, the customer usually prefers to physically see and feel the goods being paid for before parting with their money in exchange for the goods. The vendor on the other hand would usually insist on seeing and checking the correctness, and in some extreme cases, the “cleanliness” and “genuineness” of the medium of exchange before parting with their commodities.

Trust is an essential prerequisite in any business transaction or relationship. It is even more so in an initial e-Commerce relationship in which neither the vendor nor the customer may see or know each other before entering into the relationship.

According to Moment, online business activities are both complex and competitive giving rise to a situation in which it is no longer adequate for entrepreneurs to rely solely on their professional skills to achieve competitive edge and significant market advantage they need in order to thrive in their businesses (Moment, 2003). This therefore makes the need for more trust an imperative.

Trust is a fundamental requirement for every business activity (Clarke, 2002) particularly in the virtual, online environment which is characterised by a very high level of anonymity. This lack of direct physical contact is particularly problematic for most SMEs (Deelmann and Loos, 2002).

In this era when there are cut-throat levels of competition in online business, coupled with an enduring urge for business success and growth, Trust is an essential catalyst to help SMEs achieve their business objectives.

2. The Concept of Trust

- Trade is based on Trust, not Security. People will deal with others, or not, on the basis of belief, not objective technicalities, and in the arena of Trade they deal on the basis of Trust. Whyte (2001)

Trust, as a concept, can be seen as the assured reliance on the character, ability, strength or truth of someone or something. Trust is fundamental in every interpersonal and commercial relationship. As McKnight and Chervany see it, Trust “is crucial whenever (and wherever) risk, uncertainty, or inter-dependence exist”(McKnight and Chervany, 2001). Trust is also seen as “the glue” in any dyadic buyer-seller relationships (Pressey & Mathews, 2004).

Three elements of Trust have been identified as forming the basis for electronic communication and sharing of data: trust in people, trust in organisations, and trust in technology (Burkert, 1994).

Some researchers have also identified 3 dimensions of Trust in an e-Commerce vendor-customer relationship as *competence*, *integrity* and *benevolence* (Putnam, 2001; Chen & Dhillon, 2003). “Competence” is the ability of a company to fulfil promises made to customers; “integrity” looks at consistency, reliability and honesty of the company in dealing with its customers; while “benevolence” refers to the ability of the company to uphold its customers’ interests ahead of its own selfish interest and indicates sincere concerns for the welfare of the customers

In another study conducted in two Latin American countries namely Brazil and Chile, Avgerou et al.(2005) also explored the distinctions existing in such aspects of trust as: Trust in technological artifacts or processes; trust in specific ICT-mediated services; and trust in government.

They also researched into the distinctions between trust as an *interpersonal relationship*, and as a *social or institutional phenomenon*, and posited that in the second situation, trust “captures citizens’ expectations of *fairness, impartiality and reliability*” vis-à-vis the impersonal and less tangible mechanism, structures or processes underlying modern state and society at large” (Avgerou et al., 2005).

3. Nigeria’s SMEs and the Impact of Trust

From the point of view of the SMEs and their willingness to participate in online activities, we explored the issue of Trust from four different perspectives:

- Trust in Internet Technology (Technology);
- Trust in ICT-mediated Transactions;
- Trust in Customers; and
- Trust in Consultants/Experts

The data used in this study were generated from five industrial sectors of the Nigerian economy spread across three cities of Abuja, Lagos and Enugu. The sectors are: Manufacturing and Construction, Banking and Finance, Educational and Entertainment, Leisure and Tourism, and Human Resources Management and Consultancy. Of the five industrial sectors used (as shown in Fig 1), Banking and Finance towers above all others in their level of participation in online transactions. This sector is followed by the Manufacturing and Construction industry.

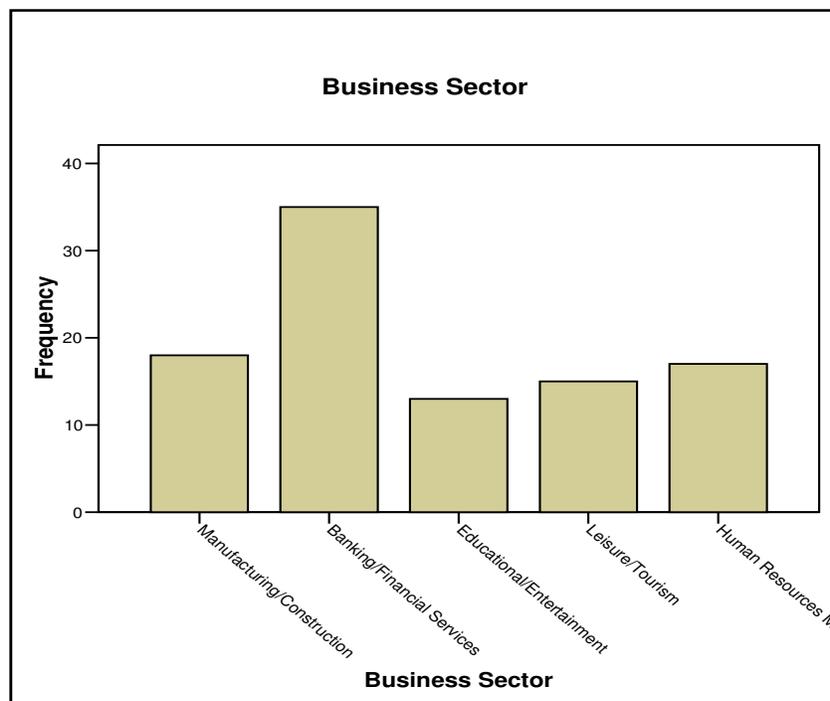


Figure 1: Industrial Sector Online Participation Distribution

Our findings, as shown in Table 1, show that a significant majority of the respondents feel that Trust plays an important role in determining whether or not they are willing to conduct their businesses online. While a huge majority of the Respondents (82%) view “Trust in Internet Technologies” as being their main consideration for their decision to participate in e-Commerce, 73% of them would do so if the Trust level in “ICT-Mediated Online Transactions” is improved. One interesting feature of these results is that SMEs are equally divided on the importance of Internet Experts on their decision to conduct their business activities online.

How the Following Trust Factors affect SME Willingness to do Business Online	Responses (in %)
Trust in Internet Technologies (Techs)	82
Trust in (ICT-Mediated) Transactions	73
Trust in Online Customers	71
Trust in Internet Consultants/Experts	50

Table 1: Showing Trust Factors Affecting Nigerian SMEs' Willingness to do Business Online

Nigeria is a huge market with an estimated population of over 177 million people and gross domestic product (GDP) of 80.2 trillion naira (\$5.10 billion). In 2014, Nigeria's image and prestige received a boost with its attainment to the *numero uno* economic position in the continent of Africa, overtaking South Africa in the process. According to *The Economist*, Nigeria rose to 24th in the list of the world's big economies, behind Poland and Norway and ahead of Belgium and Taiwan (*The Economist*, 2014). This is a positive development and a big leap forward for a country that has been derogatively described as a “sleeping giant.”

There are indications that Nigeria's e-commerce sector has been growing resulting in a situation where a good percentage of the population are now going online to purchase various categories of items (Chiejina and Olamide, 2014). According to the figures published by the Internet World Statistics (IWS, 2014), Nigeria's online users grew from about 200,000 in 2000 to about 70 million in 2014. Given the country's estimated population, this increase represents a population penetration of 40% and a growth rate of 21,891%. Various other studies have given varying figures of growth (Ayo, et al., 2011; Odutola, 2013).

The jump in Internet users also brought about a quick rise in the number of e-Commerce outlets from just 2 in 2000 to 85 active online retailers in 2014 (Eze, 2014). On paper, this is a massive jump, but considering the size of the country and the current GDP, it is our argument that much is still being expected from the country in the area of e-Commerce activities. Our study shows that most Nigerian SMEs are willing to showcase their products and services online if the level of Trust in the four areas investigated is enhanced.

Furthermore, if the growth is viewed from the perspective of the number of SMEs operating in the country, the level of insignificance of the jump becomes more apparent. For instance, according to a survey jointly conducted by the Small and Medium sized Enterprise Development Agency of Nigeria (SMEDAN) and the Federal Bureau of Statistics (FBS) across the 36 states of the Nigerian federation and the Federal Capital Territory (FCT), there were some 17.28 million SMEs in the country in 2012 (FBS, 2013). If therefore only 85 of this figure engage in e-Commerce in the country, it means that the number in percentage distribution is less than .0005! For a country that occupies the number one economic position in a continent, coupled with her population and GDP, this is not good enough.

The other implication of these figures is that while Nigeria's online usage is on the increase, the number of e-Commerce users is neither commensurate with the population nor with the number using the internet. This then presupposes that more Nigerians are using the Internet for other purposes. Take the issue of use of social networking media like Facebook as an example. A lot of Nigerians who use this networking medium do so more for social, literary and/or political activities than e-Commerce. A lot of single ladies and men use these fora for seeking social relationships rather than engaging in e-Commerce activities. Our research also shows that a lot of Nigerians use the Internet more for just email and social networking communication purposes rather than in buying and selling. However, it could be argued that communicating with a business partner via email messaging service is still a part of e-Commerce.

4. Nigeria and the Trust Problem

The issue of international trust poses a big problem for Nigerian small businesses. Nigeria is well known for internet scam and high rates of online fraud (Chiejina and Olamide, 2014). The country's reputation has been badly dented by some very negative reports of advance fee fraud activities being carried out by a very insignificant minority of individuals in the country. Popularly known as “419” (derived from Section 419 of the Nigerian penal code which addresses the issue), these fraudsters seek financial gratification from unsuspecting foreign business people on the promise of bigger returns on their “investments”.

These activities have helped in propelling the issue of Trust to the top rung of the considerations by vendors and customers alike as the most important factor affecting their willingness to warm up to online transactions in the country. Of course, there are some other factors such as security and infrastructure; cost of deployment and implementation of the technologies; lack of skills and training; management and strategy and so on (Adewale, et al., 2013; Arendt, 2008; Abid, et al., 2011; Rao, 2003; Fillis, et al., 2003; Oh, et al., 2012; and Duan, 2012). The issue of trust is an important consideration running through the other factors.

It is encouraging to note that these fraudulent activities are on the decline due largely to a combination of factors. However, the hapless SMEs who are among the major losers in these fraudulent acts, and who are genuinely interested in developing and nurturing lasting business relationships with their foreign partners are still suffering the effects.

It was partly in a bid to redress this situation that informed our study. We sought to find out from our respondents how some of the identified disabling factors affected their willingness to engage in online business transactions. In view of the magnitude of the problems confronting SMEs in developing countries, especially Nigeria, fashioning a workable strategy (or a combination of strategies) that will help them participate and maximise their business potential becomes a very important imperative.

According to a MasterCard Worldwide Survey (MasterCard, 2012) study, 59% of the Nigerian population doubt the safety of online transactions and 43% are concerned about the quality of the products delivered. This perhaps explains why very many Nigerians are not likely to forgo in a hurry the traditional face-to-face mode of commerce for the online one. They still prefer to buy from stores where they can physically inspect products and satisfy themselves that the products are what they want before parting with their money.

The good news however, is that, as has been demonstrated, the number of customers engaging in e-Commerce transactions is slowly but steadily rising. But, the country with its vast population and natural resources, coupled with its newfound economic status in Africa, should be doing more than is the case presently. This explains our interest in finding ways to address the Trust factors with a view to reinforcing the people's belief in the technologies of e-Commerce.

5. The Issue of Digital Divide

The issue of digital divide has engaged researchers and commentators for quite some time now. *Digital Divide* was made popular as a reference to the disparity that existed between rural and urban America in their use of the Internet and other ICTs (Okoli, 2003; Lu, 2001). In contemporary times however, the term is now being used to show the chasm existing between the developed and developing countries with respect to their access to ICTs as well as the educational and business opportunities this access brings (Lu, 2001).

In Nigeria, there is a massive gulf between the lifestyles of most urban dwellers and their rural counterparts. Those living in cities like Abuja, Lagos, Enugu and so on enjoy the Western lifestyles. They use ICTs in their offices and homes thereby enjoying the benefits these technologies provide. On the other hand, their counterparts in the rural areas do not have even a half of these enabling facilities and technologies: a situation that has resulted to another form of digital divide.

A lot of researchers and commentators have warned against this type of schism existing between urban and rural communities. As Best and Maclay (2002) observed, economic self-sustainability for the Internet in rural areas is key if we want to avoid common development failures associated with donor initiatives. They argue that empowering local communities on how to use the technologies of the Internet and E-Commerce will ultimately lead to real and sustainable development. Their argument is nothing short of the age-old maxim of empowering a child to fish rather than continually supplying them with fish. This argument also tallies very strongly with the findings of Khalil (2003), who established that there is a direct link between information access and poverty reduction. As observed by Madon (2000), electronic communication can also assist in the management of crises and poverty alleviation amongst international organisations.

Unfortunately however, some developing countries, particularly those in the SSA region, have not fully realised the benefits of this technology due to some adoption and implementation problems (Fleener and Raven, 2003). The good news however is that the number of Internet users in these developing countries has continued to increase. In Nigeria, for instance, between 2000 and 2014, Internet users grew marginally. However, the digital divide gap is still widening.

6. Strategies for Improving Trust Level

SMEs in developing countries suffer from a plethora of disadvantages which hamper their efforts to join the rest of the world in exploiting the benefits of e-commerce. According to Goldstein & O'Connor (Goldstein, & O'Connor, 2000), a lot of SMEs in developing countries are still grappling with some governmental, institutional and technical problems such as e-commerce requirements.

There are also the problems of legal norms and standards covering among other aspects contract enforcement, consumer protection, liability assignment, privacy protection, and intellectual property rights. Furthermore, there are those problems relating to process and technical standards (e.g. regarding the way payments are accepted on the Internet and products are delivered to the final user, security, authentication, digital signatures, and connectivity protocols).

There are indications however that some of these and other problems have been receiving due attention by both the governments and private-sector entrepreneurs in some of these countries. In Singapore for instance, the government in 2000 announced plans to position the country as an e-commerce hub through the implementation of such initiatives as:

- a) Establishing a secure e-commerce environment;
- b) Building confidence in e-businesses;
- c) Building confidence in consumers to transact on the Internet; and
- d) Educating and increasing awareness of the benefits of e-commerce (IDA, 2001).

It is therefore not surprising that of the 148 nations which featured in the current World Information Technology Report published by World Economic Forum (WEF, 2014), Singapore comes second after Finland as the country with the highest networked index. However, Singapore's ascendancy and position in the global rankings is not reflected on the other developing countries' positions, particularly those from SSA. According to the rankings, 35 of the 74 countries on the bottom half of the table are from SSA with Nigeria occupying the 112th position.

6.1. Embark on BPR

Most small businesses in DCs started off as just normal bricks-and-mortar businesses: micro, one-man, or family businesses which, due to a combination of factors of growth and expansion, have developed into small and medium-sized enterprises. This being the case, most SMEs are not properly designed to fit into modern, ICT-mediated online transactional environments. One of the implications of this is that the structure, operating patterns, and management approach found in most SMEs do not fit into modern online patterns of business operations.

This therefore means that one of the first major steps to be taken by SMEs warming up for online business operations is to carry out a thorough e-readiness assessment followed by an effective business process reengineering (BPR) exercise. This involves a “fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measure of performance, such as cost, quality, service, and speed” (Hammar and Champy, 1993).

6.2. Improved Payment Protection and Security

One obvious way in which SMEs in developing countries can engender Trust is to use technological solutions to directly address the risks involved in e-Commerce transactions. This therefore calls for improved payment systems like using the Escrow (or mediator) approach favoured by most of the respondents in the IDA (2001) study and as suggested in this paper. Banks are known to be amongst the facilitators of B2B relationships. If a customer is assured that the payment he has made can be retrieved if the goods paid for are not received, then, all things being equal, he may be willing to deposit his payment into a bank (Ojukwu and Georgiadou, 2007). Also, in the area of payment is the issue of protection of customers’ privacy and account details

Furthermore, web designers in these regions must strive towards establishing secure online environments for users. One of the ways of achieving this is through the use of public key infrastructure (PKI) which addresses the key issues of authentication, confidentiality, integrity and non-repudiation required for secure online transactions. *Authentication* control ensures the establishment of the right identity for the parties involved in the transaction; *Confidentiality* is concerned with keeping personal details of the participants out of reach by a third party; *Integrity* addresses the data and information shared online making sure no alteration takes place; and *non-Repudiation* control ensures that the parties cannot disown the transaction by, for instance, exploiting the non-personal nature of e-commerce.

Apart from Encryption technology, there are other technologies that can be used in guaranteeing the privacy and safety of online payment system. One of them is the Secure Socket Layer (SSL) technology which encrypts and protects the information being transmitted in the network via the “https protocol”. With this system which is compatible with all major operating systems, browsers and Web applications as well as server hardware, data in transit is protected. An SSL certificate is an electronic file that allows the encrypted communication and clearly establishes the identity of an individual or website (Lee, et al., 2006).

There is also Certificates with Extended Validation (EV) offer which is an authentication higher than any other SSL certificate, more structured and tighter controls.

Using Escrow systems for processing payments (e.g. PayPal, etc.) and other well-established high street banks as payment clearing houses will help in maintaining the privacy of customers.

One other way of circumventing the security nightmare being experienced by some online customers is to adopt a combination of payment methods and let the customer (particular those local to your area of operation) to chose how to pay. One of the options should be the pay on delivery (PoD) option. This is gaining in popularity in Nigeria as it affords the customer the opportunity of making sure that the goods being paid for meet the online specifications. h (using third party approach (Escrows – Paypal, etc.) using PoD – Pay on Delivery; and other methods like credit/debit cards; e-payment etc);

6.3. Cognitive and Affective Approaches

Approaches to trust building in B2B relationships can be both cognitive and affective (Corritor, et al., 2001; Riegelsburger, 2003). One of the affective IOT building strategies is communicated through the web interface. Fogg et al established that people’s perceptions of web credibility can be determined by such factors as physical address details and high quality photographs of employees (Fogg, 2002). There is also the need for the provision of company information that is easy to find; prices (including taxes and shipping costs) early in the interaction.

6.4. Applying Visual Interpersonal Cues

Since human trust decisions are based on affective reaction (Riegelsburger 2003; Fogg, 2002), one of the most effective ways of achieving initial affective trust in business relationships is to apply visual interpersonal cues in the business website. Using photographs which accompany online articles, for instance, can enhance the credibility of the articles. It is advisable that photographs of the main operators of the business be used in the website. This should be followed by brief background information about the operators, the length of time they have been in business and a bit about their experience and expertise as these can help in eliciting customers’ trust.

In view of the magnitude of the problems confronting SMEs in DCs, especially in Nigeria, fashioning a workable strategy (or a combination of strategies) that would help them maximise their business potential becomes a very important imperative.

6.5. Maintaining a Professional Online Presence

One of the major steps that should be taken by the SMEs is to make their websites look very professional. This can be achieved by hiring and retaining the services of professional web designers who in turn should incorporate some trust cues on their clients’

websites. Establishing initial trust can be a major challenge to new SMEs engaging in e-Commerce (Pichler, 2000). This becomes even more daunting for those SMEs who do not have well-established off-line brands. One of the most effective ways of achieving initial affective trust in business relationships is to apply visual interpersonal cues (Riegelsburger 2003; Fogg, 2002). This therefore means that some more affective approaches have to be adopted. These include:

6.5.1. Making Goods and Services Accessible and Available

The company's goods and services should be made available and should be accessible online 24/7. This means that the company must be in the position to deliver any products and services paid for by the customers. One of the best ways of achieving accessibility is through the use of search engine optimisation (SEO) technologies. They help in placing the website and its contents on the top of the most search engine lists.

6.5.2. Making Your Website Attractive

The beauty of your online site provides the first welcome to a potential customer. By applying some web design approaches like using good colour combinations, a good and balanced layout, and appropriate type faces and sizes, the visitors' attention could be retained for a while.

6.5.3. Using Testimonials

Using testimonials like short, simple and positive anecdotal comments from your previous and existing customers expressing satisfaction with the business culture of your outfit can help paint an image of Trust in the minds of your potential customers.

6.5.4. Using Trust-Assurance Indicators

Using Trust-assurance indicators and Trust marks such as known third-party security vendors to show to customers that your business fulfils a set of criteria can help in eliciting Trust from your customers. Examples of some of these Trust marks and indicators include: VeriSign, ADDSecure.net, BBBOnline, Clicksure, TrustUK.

The VeriSign seal, which enjoys a global recognition and applicability, is also the most widely used security badge. A click on the sign shows the name of the certificate owner, the period of validity, and other important. In 2009, a VeriSign study (VeriSign Brand Tracking Research) found that 11 per cent of respondents indicated that on occasion, the absence of the VeriSign seal was determining factor for not using an e-Commerce website (Kassim and Ismail, 2009).

6.5.5. Product and Service Quality

The quality of your products and services should be assured and should be made clear to your customers since Quality Assurance approaches normally include, among other things, the publication of product quality information. Quality can give your business a competitive edge and can help you to keep and gain more customers. Quality can affect the performance of your business overall; your marketing and sales activities; how you develop and produce or provide your products or services; how you keep business records; and how you deal with customers.

6.6. Maintaining Good Customer Relations

Good Customer Relationship Management (CRM) plays a very important role in enhancing Trust in online business relationships. The technologies are available to help vendors in reaching out to their customers. There are, for instance, email, SMS and WhatsApp messaging applications. There are also voice over internet protocol (VOIP) imbued with multi-media (audio and visual) technologies (e.g. SKYPE, VIBER, etc) with which an operative of the company and a customer can address a customer's concern or order. As Brown (2010) puts it: "Nothing is as welcoming as being treated with dignity and the utmost respect by a friendly and attentive customer service representative" The quality of CRM service delivery can be improved through Total Quality Management (TQM) principles.

6.7. Use Order Tracking

Order Tracking is the process of monitoring or tracking the progress being made by the products and services during the delivery process. This process helps the customer monitor how long the ordered items would arrive, this way, the customer is placed in-charge of the progress of their items. Using order tracking for long distance customers reduces the spectre of anonymity and anxiety as a customer is able to ascertain the progress of the delivery of an order.

6.8. Apply Competitive Pricing

Cost of online products and services must be competitive. E-Commerce environment is a buyer's market in which the buyer is in total control of their purchasing preferences. Additionally, the use of price comparing applications in determining which vendor's prices are lower than others help the buyer in making choices based on product prices. There is no need for a vendor to price their products and services out of the market. Sometimes, a vendor can use the price-comparing approach by displaying some of the prices of their major competitors as a way of showing the customers how competitive their prices are.

6.9. Return Policy

A flexible, customer-oriented return policy should be applied by small businesses. When a customer complains about the quality or some defects found on the products due to handling or other factors, the vendor should consider the long-term implication of losing a customer by changing the products or refunding the customer.

6.10. Infrastructure Improvement

In Nigeria, the issue of infrastructural availability has been a source of worry for vendors and consumers alike. Such infrastructure as electricity, broadband and road network have affected the use of the Internet in the country. The generation, provision and distribution of electricity is the exclusive preserve of the government. Sadly, due largely to what has been described as the “epileptic” nature of power supply in the country, manufacturers and importers of generating plants have flooded the market with all sorts of generators. The government should improve the quality and regularity of Electricity supply as well as improve the bandwidth of the Internet.

6.11. Conflict Resolution

Conflict resolution functions are generally guided by government legislation and enforcement. However, it is advisable that online vendors should be proactive in handling their customers’ complaints and grievances without recourse to litigation and arbitration. This helps in customer retention as any aggrieved customer, after going through the legal systems for conflict resolution, may not likely come back to patronise the vendor again.

7. Conclusion

Trust is a very essential ingredient in the establishment and nurturing of business relationships between a vendor and another business organisation (B2B); a vendor and a consumer (B2C); and a consumer and another consumer (C2C). In an online environment, Trust plays a key role in establishing and retaining customer loyalty which can contribute greatly towards the enhancement of the business relationships existing between the vendor and their customers.

SMEs in developing countries are major contributors to the economic growth of their respective economies. For them to adequately play this role however, they need to earn the trust of the global community in their business relationships. For this to happen, the Trust between them and their business partners both locally and globally has to be enhanced and maintained at a high level.

Some Trust-building strategies have been discussed in this paper. Since the list of these strategies is not fully covered in this paper, it is our suggestion that more research needs to be conducted on the other ways of building Trust between parties participating in e-Commerce, particularly as they affect SMEs in DCs.

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