

# Digital Organizational Strategy – Ticket for Competitiveness on the International Market

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## Abstract

For organizational competitiveness, it is much more important to recognize opportunities than to avoid threats. Strategic management should turn each environmental opportunity into organizational strength, so digital sale and purchase have already become worldwide established practice. In the European Union, only a quarter organizations' total sales usually come from online sale, and the situation with online purchase is even worse. The main goal of this paper is to determine the causes of reluctance to implement digital sale and purchase so the research was conducted based on the European Commission database (Flash Eurobarometer Report 413) and Eurostat database. Online sale and online purchase of EU organizations have been studied based on the available data. Therefore, obstacles to digital sale and purchase, proportion of sale and purchase made nationally and cross-border, value of e-commerce sales, integration of internal processes, security policy and individuals' level of computer, digital and e-skills are observed. Results show that EU organizations do not implement digital sale because delivery costs are too high and guarantees as well as returns are too expensive, and even if they sell online, they are selling only in their own respective countries, mostly using their own websites or applications. Reasons against digital purchase are similar: high delivery costs. In this paper, special attention is directed to Croatian organizations that are not enough digitally oriented. Croatian organizations used to buy online from other EU countries, but stopped doing this although they are currently considering buying products or services online from other EU countries. Also, they are willing to sell online to other EU countries and what is interesting comparing with other EU countries, one in ten organizations in Croatia is selling to Japan and China. A major problem is that a significant percentage of Croatian organizations have tried to sell online to other EU countries but have given up. They are not concerned about data not being well protected or about product labelling having to be adapted, which raises questions about true reasons for giving up from online sale to EU countries. Data indicate a really small number of organizations with precise digital business strategy, not only in Croatia but in the whole European Union. Focus on digitalization could reduce logistics costs and enhance export. Nevertheless, digital orientation undoubtedly must become priority of strategic management.

## Keywords

Croatia, European Union, digital purchase, digital sale, organizational competitiveness.

## Introduction

E-commerce is only one part of e-business but it is the most visible indicator of direct Internet and digital economy influence. Don Tapscott was the first one (1995) who spoke about importance of

digital economy in his book *The Digital Economy: Promise and Peril in the Age of Networked Intelligence*, stressing “networking of humans through technology”. Computers and Internet have enabled people and organizations to exchange goods in real time in the simplest and fast-

est way possible, so digital economy is often called Internet Economy or New Economy. Digital economy accounts for almost 8% of GDP of G20 major economies (European Commission, n.d.) and it is assumed that this percentage will grow rapidly every year. This trend is not temporary and it should be monitored by e-commerce including e-sale (online sale or digital sale), and e-purchase (online purchase or digital purchase). Being present on a national market without digital strategy is only survival strategy, but it is almost impossible to penetrate on the international market without digital orientation. However, organizations with long-term development strategy can find their key for competitiveness in digital economy both nationally and internationally. Therefore, application of e-commerce is not added value, but the only right way of doing business. Primary focus should be digital sale that contributes to general sale growth. It is easy to know how much organizations are engaged in e-commerce sale, but not how much they really sell via e-commerce (Brynjolfsson & Kahin, 2002). This paper hence tries to investigate real digital sale and purchase in European Union organizations with special emphasis on Croatian organizations. Organizational e-commerce implies the existence of Internet access, an IT platform in the workplace and also employer's computer and digital knowledge and skills. Only when all digital conditions are ensured, digital sale and purchase can be applied.

## 1. Literature review

Digital economy includes a lot of new platforms such as crowdsourcing and 'free' media services, funded by advertising and Big Data but their direct influence on productivity and GDP is questionable (Ahmad & Schreyer, 2016, p. 4). According to van Ark (2016, p. 3), digital economy is still in "installation phase" and there is no "visible improvement in productivity growth" due to digital progress. "Global GDP growth has been propelled by two key factors over the past 50 years: growth of the size of the overall labour force, which doubled in the G20 countries as a result of brisk population growth, and rising productivity" (Labaye & Remes, 2015, p. 47). The same authors warn that population will fall in all G20 countries so much that "productivity would need to grow 80% faster than the already high rate of the past 50 years". They suggest that only digital economy can respond to this productivity imperative. The most common trap with digital organizational

strategy is that they are still mainly process-oriented and less product-oriented (Spil, Kijl, & Salmela, 2016). Comprehensive digital business strategy could bring competitive advantage, added value and profit to each organization (Pagani, 2013).

"The key to realizing the potential of the digital economy is widespread access to the Internet" (Hamid & Khalid, 2016, p. 276). Internet and IT are not sufficient without human capital which implies certain knowledge. This is why Knowledge Management is indispensable support for e-commerce establishment. The domain of electronic commerce is much wider than online sale and purchase so it could be summed up that e-commerce is collection of commercial activities conducted through electronic networks whose ultimate goal is sale or purchase (Lontoš & Vuković, 2016).

Organizational e-commerce can move in different directions (B2B, B2C, B2S, C2B, C2C, C2G, G2B, G2C and G2G), but two of them will be observed from organizational aspect: Business to Business (B2B) and Business to Consumer (B2C). B2B is defined as "business activities fulfilled electronically in order to enhance competitive advantage, related to selling, buying, exchanging, or transferring goods, services, and information among organizations" (Hamad El-beltagi, Jones, & El-Gohary, 2015, p. 405). E-commerce in B2B context can increase profitability (Borenstein & Saloner, 2001; Luckey-Reiley & Spulber, 2001) and improve company performance through lower purchasing and administrative costs (Efendi, Kinney, Taken, & Murphy, 2013). One study from Taiwan has showed that in the terms of B2B web site characteristics increase relationship quality (trust, commitment and satisfaction) whose result is e-loyalty (Hsu, Wang, & Chin, 2013). Decision on implementing B2B e-commerce depends on environmental factors, technological factors and organizational and interorganisational factors. Excluding contextual variables, "pressure from competitors, network reliability, scalability, top management support, and trust play a significant role in contributing to firms' decision to adopt B2B EC. However, pressure from trading partners, costs, data security, and complexity do not" (Sila, 2013, p. 230). Despite all, context is not irrelevant so it is necessary to examine it both for B2B and B2C. For example, there are different taxes and classifications in each county (Jensen, Lewis, DoVale, & McGahan 2015) which means that change management is

not expected only of organizations, but also of governments.

Opportunities for B2C e-commerce are even bigger than in case of B2B while consumers are online 24/7/365. For B2C e-commerce, social networking is very important (Sheikh & Basti, 2015; Oestreicher-Singer & Zalmanson, 2013), visibility (Grover & Kohli, 2013), as well as reviews, ratings, and recommendation systems (Amblee & Bui, 2012). Although consumer behaviour depends on “internal beliefs, attitudes, intention for online shopping, social network, personal experience, convenience, marketing, mass media and internet” (Sharma, 2016, p. 46), the adequate digital strategy can bring organization to consumer even closer than geolocation. Repeat purchase is crucial for e-sale which can be achieved with various tools such as web pages, social media, blogs, Internet advertising, CRM software etc. Dean (2017) unites three steps for Digital Sale Success: Review (tracking and analyzing previous marketing initiatives), Repent (identifying gaps in your sales process and support) and Renew (creating strategy by setting achievable goals).

## 2. Methodology

Secondary research in this paper was conducted based on the European Commission database (Flash Eurobarometer Report 413 – Companies engaged in online activities) and Eurostat database (European Commission, 2015; Eurostat, 2016). There is a specific examination on data related to Croatia both on European Commission and Eurostat database. Flash Eurobarometer Report 413 was audited by HENDAL Institute, which conducted a survey of 300 interviews within 13,432 businesses. Research was carried out in 2015. On the other hand, Eurostat provides even more recent data, mostly referring to 2016. The main limitation of Eurostat research is sample which excludes financial sector and collects the data only for organizations that have more than 10 employees. Therefore, data comparing brings minor deviations.

## 3. Results and discussion

### 3.1. EU and Croatian organizations in digital environment

According to Eurostat database (2016), 97% of EU organizations have Internet access. 92% of them are using DSL or other fixed broadband

connection, while 67% are connecting to the Internet via a mobile broadband connection (3G modem or 3G handset). 44% of total employed persons in Croatia in 2016 were using computers with access to World Wide Web. This is below EU average (50%) but also decline comparing to 2013 when this percentage was 45. 88% of employees using computers are using computers with access to World Wide Web. 47% of employees are working in organizations which use computers and have Internet access. 90% of organizations in 2016 have had broadband access (fixed or mobile). 11% of organizations in Croatia have problem with Internet connections (European Commission, 2015). 56% of organizations provide the employed with remote access to the organization's e-mail system, documents or applications. 72% of organization in 2014 provided portable devices that allow a mobile connection to the internet for business use to their employees (Eurostat, 2017).

In 2016, 77% of EU organizations had a web site or homepage, which is an increase of 10% comparing to 2010. 25% of EU organizations have advertised on the Internet, and 30% of Croatian organizations have paid to advertise on the Internet (17% have paid to advertise on the Internet based on the web pages' content or keywords searched by users, 9% have paid to advertise on the Internet based on the tracking of Internet users' past activities or profile, 7% have paid to advertise on the Internet based on the geolocation of Internet users). 45% of EU organizations are using social media, and 41% of Croatian organizations (Facebook, LinkedIn, Xing, Viadeo, Yammer, etc.). 14% of EU organizations and 7% of Croatian organizations are using blogs or microblogs, while 13% of Croatian organizations are using multimedia content sharing websites (e.g. YouTube, Flickr, Picasa, SlideShare, etc.). 69% of organizations in Croatia have a web site or homepage.

21% of EU organizations bought cloud computing services used over the Internet. Cloud computing has become very popular in Croatia so 23% of organizations bought some cloud computing services, while 13% bought high CC services (accounting software applications, CRM software, computing power). Still, only 3% of Croatian organizations have recognized importance of buying Customer Relationship Software which could strongly increase online sales. In 2013 only 6% of Croatian organizations had websites with online ordering, reservation or booking and at least one

of: webacc, webctm, webot or webper, and use social media for more than one purpose. In 2015, 29% of them developed image or market products, 10% involved customers in development or innovation of their goods or services.

20% of EU organizations have ICT/IT employees. Around half EU organizations outsource ICT functions, and in only 19% of them ICT is performed by their own employees. In Croatia, 22% of organizations provide training to their personnel to develop/upgrade their ICT skills and this percentage is so “high” thanks to big organizations that have more than 250 employees.

For e-commerce, e-invoice is one of the basic technical preconditions. Only 18% of EU organizations have e-invoices suitable for B2B, and only 20% receive orders via computer mediated networks. Only 10% of organizations in Croatia have e-invoices suitable for B2B.

### 3.2. Digital sale

According to data from 2015, only a quarter of organizations’ total sales in the European Union come from online sale (25.7%) (European Commission, 2015). Eurostat database refers to 17% for the same year, and 18% in 2016. Considering first mentioned data, Croatia is below average with 23.6%, which is quite a small percentage compared to Luxemburg (46.4%), but on the other hand is not that bad a result comparing to Hungary (20.3%) and Slovakia (19.2%). Due to the fact that the highest proportion of online sale is noticeable in hospitality sector, it is possible to assume that this percentage in Croatia is the result of increasing tourism development.

“80% of companies sell online using their own websites or apps” so this is the most common method in Croatia as well (European Commission, 2015). Among all European Union member states, Croatia is a country with the lowest percentage of small commercial platforms usage with only 7% comparing to 61% in Spain for example. 19% of Croatian organizations have received orders via computer mediated networks, and 17% of them have done electronic sales to the own country, while 9% have done electronic sales to the other EU countries and 7% to the rest of the world (Eurostat, 2017).

Organizations realize less than 15% of online sale outside the national boundaries and only 4.3% outside the EU. It is interesting that almost 6% of Croatian online sale is in countries outside the EU. In 2014 at least one in ten organizations in Croatia sold to China (10%) and Japan (12%).

It only indicates that there is a small number of big organizations selling online in Croatia because big organizations mostly sell to the USA, which is not the Croatian case.

Organizations that do not sell online in other EU countries generally have negative opinion about their potential online sale outside the national boundaries. Only one in five organizations are considering selling online in other EU countries, so the problem is that “majority of companies say they will probably never sell their products or services online in other EU countries (58%)” (European Commission, 2015). 26% of organizations in Croatia stated they will probably never sell their products or services online in other EU countries, 29% of organizations in Croatia are trying now to sell to other EU countries, but 10% have already given up, which means that certainly at least one third of Croatian organizations will probably sooner or later completely eliminate option for selling online in other EU countries.

Organizations that sell online or used to sell online to other EU countries mention the following common problems:

- delivery costs are too high
- expense in resolving cross-border complaints
- guarantees and returns are too expensive
- slow Internet speeds
- client’s Internet connection is not fast enough
- complications or costs of dealing with foreign taxation
- not knowing the rules that need to be followed
- lack of language skills
- lack of security for cross-border payments
- data protection concerns
- interoperability
- products and services specific to the local market
- product labelling needing to be adapted (European Commission, 2015).

32% of Croatian organizations that sell online or used to sell online to other EU countries state that delivery costs are too high. 52% of them do not think that resolving complaints and disputes cross-border is too expensive; 59% do not think that guarantees and returns are too expensive and dealing with foreign taxation is not seen as a problem (69%) as well as knowing the rules that need to be followed (69%). Also, organizational Inter-

net connection is not a problem at all (77%), likewise Internet connection with foreign clients (79%), and language skills are not problem (84%) and there are no concerns about data not being well protected (87%). Of all EU member states, along with the Finns and Estonians, Croatians give the least concerns about data protection. 72% of Croatian organizations state that payments from other countries are not a problem at all and 62% think there are no problems with interoperability. Products and services specific to own local market are not problem (62%), as well as selling abroad at different prices (79%). The issue of product labelling having to be adapted is not problematic (73%) and there are no suppliers' restrictions or prohibitions to sell abroad (77%).

Similar results appear in the case of Croatian organizations that do not sell online to other EU countries but are trying to now: lack of security for payments from other countries is not a problem at all, as well as expensive guarantees and returns, rules to be followed, language skills, cost of resolving cross-border disputes, and other. The only significant problem appears with product labelling (43%). Also, Croatian organizations that do not sell online, and are currently not trying to, do not differ in relation to other Croatian organizations. 30% of them believe delivery costs are too high, but other than that, they do not point out larger problems.

Only 4% of Croatian organizations state that an obstacle for web sale is that goods or services are not suitable. Only 3% think that there are problems related to logistics (shipping of goods or delivery of services), or problems related to payments, and 2% of them mention problems related to ICT security or data protection. Problems related to the legal framework are recognized only by 1% of Croatian organizations. Hence, the greatest obstacle is the fact that the costs of introducing web sales are too high compared to the benefits (21%) (Eurostat, 2017).

All these data call into question the real reasons why the Croats do not sell online to other EU countries. Except somewhat problematic delivery costs and web sale costs, there are no other obvious big problems. Therefore, there is a need to scratch beneath the surface and try to find out what is behind all mentioned favourable indicators. "Almost one quarter of companies that either sold online to other EU companies in 2014, who used to do this, or who are currently considering or trying this, say they would definitely start or increase online sales to other Member States if

there were common rules for e-commerce across the EU (23%)" (European Commission, 2015). 22% of Croatian organizations say they would definitely start or increase online sales to other Member States if there were common rules for e-commerce across the EU, while 41% say they would do it to some extent.

### 3.3. Digital purchase

42% of EU organizations in 2016 have at least one purchased via computer mediated networks, and 23% of Croatian organizations have purchased via computer mediated networks (Eurostat, 2017). "On average, 23.3% of the value of total goods/services purchased in 2014 came from online purchases" (European Commission, 2015). Croatia is even 10% above average, and there are only Denmark and Austria above Croatia. 9% of Croatian organizations have purchased via computer networks from suppliers located in Croatia (Eurostat, 2017). In 2015, 39% of them have been sending e-commerce orders over the last calendar year.

Organizations in the information and communication sector had by far the largest proportion of value from online purchases, and they are most likely to buy online using the websites or apps of their suppliers. Similarly to the case of selling, organizations mostly buy from other organizations from their own country (83.3%) (European Commission, 2015).

Only 7% of Croatian organizations in 2015 have purchased via computer networks from suppliers located in other EU countries (Eurostat, 2017). Croatia has the highest average proportions of online purchases from countries outside the EU (9.5%), and relatively low percentage (21%) of those organizations that will probably never buy products or services online from other EU countries. 43% of Croatian organizations are currently considering buying products or services online from other EU countries, and 16% are trying to do it now. Although 12% of Croatian organizations that used to buy online from other EU countries stopped doing it, only 2% have definitely given up.

Organizations that purchase online or used to purchase online from other EU countries mention the following common problems:

- high delivery costs
- expense of resolving cross-border complaints and disputes
- data protection when purchasing abroad

- lack of language skills
- payments to other countries not being secure enough
- foreign suppliers refused to deliver to their country (European Commission, 2015).

30% of Croatian organizations that purchase online or used to purchase online from other EU countries believe that resolving cross-border complaints and disputes is too expensive, while 35% believe that delivery costs are high. However, they are not concerned about data protection, language skills, payments, interoperability nor refused deliveries. Likewise, organizations that do not purchase online from other EU countries but are trying to do it now, have the similar opinion.

**3.4. Profiles of organizations that sell/purchase online**

Total turnover from e-commerce in Croatia is 14%, and 5% from web sale (Eurostat, 2017). According to Flash Eurobarometer Report 413Croatian organizations that sell and purchase online are mostly small organizations. 72% of those who sell online are small organizations with 1-9 employees, while 77% of those who purchase online are small organizations with 1-9 employees. 21% of those who sell online are small organizations with 10-49 employees, while 20% of those who purchase online are small organizations with 10-49 employees. Less than 2% of middle (50-249 employees) and big (250 and more employees) organizations buy and purchase online.

87% of Croatian organizations that sell online are independent, and 90% of Croatian organizations that purchase online are also independent. Organizations that are part of national and international groups are not inclined to online sale and purchase. “In Croatia 35% of companies that sell online sell digital services delivered online to consumers, compared to 16% that purchase online. A similar difference exists in Croatia for companies that sell digital services delivered online to other companies: 32% sell online compared to 17% that purchase online” (European Commission, 2015).

**Table 1** Types of products and services of e-commerce in Croatia

Types of products and services	Sell/purchase	%
goods to individual consumers	Sell online	83
goods to individual consumers	Purchase online	60
goods to other organizations	Sell online	82
goods to other organizations	Purchase online	78

digital services entirely delivered online to individual consumers	Sell online	35
digital services entirely delivered online to individual consumers	Purchase online	16
digital services entirely delivered online to other organizations	Sell online	32
digital services entirely delivered online to other organizations	Purchase online	17
services delivered offline or not entirely delivered online to individual consumers	Sell online	26
services delivered offline or not entirely delivered online to individual consumers	Purchase online	19
services delivered offline or not entirely delivered online to other organizations	Sell online	33
services delivered offline or not entirely delivered online to other organizations	Purchase online	24

Source: European Commission, 2015

83% of Croatian organizations are selling goods online to individual consumers; 82% are selling goods online to other organizations; 35% are selling digital services entirely delivered online to individual consumers; 32% are selling digital services entirely delivered online to other organizations; 26% are selling services delivered offline or not entirely delivered online to individual consumers; 33% are selling services delivered offline or not entirely delivered online to other organizations. 60% of Croatian organizations are purchasing online goods from individual consumers; 78% are purchasing online goods from other organizations; 16% are purchasing digital services entirely delivered online from individual consumers; 17% are purchasing digital services entirely delivered online from other organizations; 19% are purchasing services delivered offline or not entirely delivered online from individual consumers; 24% are purchasing services delivered offline or not entirely delivered online from other organizations. Among all EU countries, Croatia has the highest percentage of selling online digital services entirely delivered both to individual consumers and other organizations.

**Conclusion**

Bharadwaj et al. (2013) conclude that it is the time “to rethink the role of IT strategy, from that of a functional-level strategy—aligned but essentially always subordinate to business strategy—to

one that reflects a fusion between IT strategy and business strategy. This fusion is herein termed digital business strategy”.

Comparing to other EU countries, Croatia has the largest proportion of online purchase outside the EU but it definitely could not be interpreted as disloyalty to European Union because Croatian organizations among all other EU countries the least averse to purchasing products and services in European Union. Except that, it is commendable that Croatia exports to China and Japan, but why does Croatia not want to sell to EU? There is Internet access, mostly without problems in connection, employees are provided with needed support, guarantees and returns are not too expensive, foreign taxation and rules are familiar, there are no data protection concerns or problems with language skills or interoperability, there are no supplier restrictions or prohibitions to sell abroad and the only evident problem (same in all EU countries) with e-sale is high delivery cost. The problem is obviously internal. There are no Internet advertisements; almost a third of Croatian organizations in 2016 did not have web pages; websites with online ordering, reservation or booking are almost non-existent; there are no small commercial platforms; importance of social media is still not sufficiently recognized, as well as importance of blogs, microblogs and multimedia content sharing websites; IT education is common practice only in big organizations, but they mostly do not implement e-commerce. When only one in ten organizations in Croatia have an e-invoice, situation with e-commerce in Croatia is not surprising. If there were no hospitality sector, online sale in Croatia probably would not even exist.

It is not an enviable situation when the economy of a country relies only on tourism. Since manufacturing sector in Croatia is not moving in positive direction, it would be good to increase proportion of online sale at least in information and communication sector so Croatian organizations should create their own small platforms for online sale. Common rules for e-commerce across the EU could help solving e-commerce problems, but if Croatia wants to become recognizable on the EU market, firstly there is a need to create and implement national digital strategy. Therefore, organizations should be more directed to digital CRM and employee education, especially in small organization because they are current holders of e-commerce in Croatia. Digital organizational strategy is a big challenge but the profitable investment that leads to competitiveness. **SM**

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