ABSTRACT

This study examines three trust-building processes (relational, calculative, and institutional) that shapes individual trust in online firms and compares how the effects of these processes change over time as users gain experience with the target firms. It hypothesizes three alternative belief structures resulting from the above processes as determinants of trust, theorizes how their effects on trust change as users observe and learn from the firm’s actual behavior, and empirically tests the hypothesized associations using data collected from a field survey of online banking users. The results indicate that relational, calculative, and institutional beliefs are significant drivers of trust. However, calculative and institutional beliefs have stronger initial effects than relational beliefs for new consumers of online firms. The effect of calculative belief on trust decreases with time, while that of relational beliefs increases and that of institutional beliefs remain relatively unchanged. Research and practical implications of these findings are discussed.

Keywords: business-to-consumer; electronic commerce; online firms; trust

INTRODUCTION

Trust is widely recognized as a key driver of online commerce (Keen, 1997). This is so because online commerce typically requires sharing of sensitive personal or financial data (e.g., e-mail address, credit card numbers) among transacting parties. Such information sharing opens up the trustor to the risks of undesirable consequences, such as inappropriate use of personal or financial data by the trustee or improper conduct of business transactions. Some degree of trust is required to assure trustors that trustees will not take advantage of their vulnerability during or after the transaction. Trust reduces social uncertainty in exchange-based relationships, eliminates the need for bureaucratic control structures, and encourages long-term relationships, while lack of trust necessitates full disclosure of business rules, increases monitoring costs, and hence decreases business efficiencies (Luhmann, 1979).

Recent surveys report that only 29% of online consumers trust Web sites selling goods or services online, significantly lower than 55-60% for traditional “brick-and-mortar” businesses (Consumer WebWatch, 2002). This is evident in 65-year-old retiree Starr Tolleson’s hesitancy to buy drugs online, despite promised cost savings of over 20% for annual prescription drug expense of $9600 for the same, “It is a little
frightening to think that there is a possibility that the medicines that you order are not pure or not the ones you have ordered” (Parker-Pope, 2001, p. B1). Growing incidences of Internet fraud have contributed to further erosion of trust. For instance, in the year 2003, the U.S. Federal Trade Commission registered a 33% annual increase in identity theft in the country to 215,000 or 1 out of very 10 adults, and a 51% increase in Internet fraud, for a total estimated loss of $437 million (CNN, 2004).

Why is trust lacking in online commerce? In traditional (“brick-and-mortar”) commerce, trust is typically inspired by a firm’s physical presence, its history of successful face-to-face transactions, and clear policies for customer satisfaction and dispute resolution. However, trust in online firms is difficult to establish for several reasons (Kollock, 1999). First, these firms are often physically located in a different part of the country, making it difficult to take remedial actions if transactions do not meet expectations (e.g., returning merchandise). Second, many online firms are new startups with limited transactional history, and hence consumers have little prior basis to trust them. Third, the multiplicity of parties involved in online transactions (e.g., infrastructure providers, retailers, advertisers) makes it hard to identify who is to blame if things go wrong. Finally, legal policies related to improper conduct of online businesses are not well established or well understood, leading to further erosion of consumer trust.

It is imperative that online firms proactively invest in trust building initiatives in order to inspire consumer confidence and ensure their own survival (Keen, 1997). However, doing so will require firms to understand the different mechanisms of trust formation, the relative efficacy of these mechanisms, and the stability of these effects over time. The latter issue is important since trust is not static but builds or erodes over time (Luhmann, 1979; Rousseau, Sitkin, Burt, & Camerer, 1998), and hence strategies aimed at building initial trust among new customers may not be equally effective for retaining trust among more established customers.

Recent empirical research on trust has examined how online trust is formed based on Web site functionalities such as order fulfillment, privacy, and navigation features (e.g., Bart, Shankar, Sultan, & Urban, 2005), online firm attributes such as reputation, structural assurance, and service quality (e.g., Kim, Xu, & Koh, 2005), or external influence such as peer or editorial recommendations (Smith, Menon, & Sivakumar, 2005). Walczuch and Lundgren (2005) summarized potential antecedents of trust into categories such as perception-based, personality-based, knowledge-based, and experience-based factors. Though these studies have provided some preliminary insights into how consumers can form trust in anonymous online firms, such insights have mostly been fragmented, situation-specific, and atheoretical. This study addresses this important area in trust research by theoretically postulating and empirically testing the relative and temporal effects of generalized mechanisms of online trust formation using a field survey of online banking users. Specifically, the research questions of interest to this study are: (1) what are the key cognitive drivers of trust in online consumer-business relationships? (2) what are the relative effects of these drivers on consumers’ trust in online firms? (3) how do these effects change as the relationship matures with time?

The rest of the article proceeds as follows. The second section outlines the theoretical bases of trust and their temporal effects on online relationships, and develops hypotheses for empirical testing. The third section describes the empirical study used for hypotheses testing. The fourth section describes the data analysis techniques and results. The final section discusses the implications of the findings for research and practice and the study’s limitations.

THEORETICAL FOUNDATIONS

Conceptualizing Trust

Trust, as a research concept, has been examined in a wide range of disciplines including anthropology, psychology, economics, sociology, marketing, and organizational behavior.
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