Chapter VII
Seals on Retail Web Sites:
A Signaling Theory Perspective on Third-Party Assurances

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ABSTRACT

Signaling theory provides the framework to address why third-party assurance (TPA) seals may not have the desired positive effect on consumer trust in online merchants. Based on identified antecedents of effective signaling, three research propositions are presented to explore (1) how reliably consumers are able to recall TPA seals on viewed retail Web sites, (2) how familiar consumers are with major TPA seals, and (3) how accurately consumers comprehend the assurances legitimately represented by the TPA seals. Results of this study of three major TPA seals (TRUSTe, BBBOnLine Reliability, and VeriSign) reveal that subjects have relatively poor notice and recall of TPA seals viewed on a Web site, have limited familiarity with TPA programs, and have incomplete and largely inaccurate understanding of the assurances represented by the TPA seals. These results suggest that TPA seals may not fulfill their potential to influence consumer trust in online merchants because the signals are not effectively noticed or accurately interpreted by consumers.

INTRODUCTION

According to recently reported consumer sales figures, business on the Internet continues to grow. U.S. nontravel, electronic commerce (EC) sales reached $102.1 billion in 2006, an increase of 24% from the previous year (comScore, 2007). During the same period, total retail sales in the U.S. increased only 6.3% (CNBC, 2007). Jupiter-
Research predicts that U.S. business-to-consumer (B2C) **electronic commerce** will grow to $144 billion by the year 2010 (JupiterResearch, 2006). As a percentage of total retail sales, however, some have observed that electronic commerce growth has failed to meet early predictions (AICPA, 1998; Federal Trade Commission, 1998; Sivasailam, Kim, & Rao, 2002). B2C online sales still account for only 7% of adjusted total retail sales in the U.S. (excluding food, autos, and gas) (CNNMoney.com, 2006). Why many consumers are still choosing not to purchase online is certainly an issue worth exploring.

One explanation for consumer hesitancy to shop online put forth by electronic commerce researchers and industry practitioners alike is a lack of **trust** between consumers and online retailers (Gefen, 2000; Gefen, Karahanna, & Straub, 2003; Hoffman, Novak, & Peralta, 1999; McKnight, Kacmar, & Choudhury, 2004). In a major survey conducted by Forrester Research, almost two-thirds of respondents reported that they chose not to buy products online because of their concern about how their personal information would be used by online merchants (Portz, Strong, Busta, & Schneider, 2000). Using focus groups, a recent study found that consumers perceive three sources of online shopping risk related to the technology, the online merchant, and the products purchased (Lim, 2003). Further, some argue that the trust gap between consumers and online merchants is widening as the public becomes more aware of the information risks involved in Internet shopping (JupiterMedia, 2005; Perez, 2005). The **electronic commerce** marketplace is characterized by a high level of information asymmetry and a low level of personal interaction between consumers and merchants. As a result, it has proven difficult, especially during initial encounters, for consumers to determine which online merchants can be trusted to provide quality products or services, fulfill their orders accurately and promptly, and protect their personal and financial information.

One trust-building strategy employed by online merchants to help bridge the trust gap is to display **third-party assurance (TPA) seals** on their Web sites. These seals are visual **signals** to shoppers that an online merchant has met the specific trust standards put forward by a trust-assuring organization. Merchants who choose to participate in TPA programs do so with the expectation that displaying a TPA seal on their Web site will facilitate consumer trust and stimulate increased online sales.

The effectiveness of TPA seals for building consumer trust has received enthusiastic support from within the electronic commerce industry and the research community (ITSecurity, 2002; Luo, 2002; PublicEye, 2002; Schoder & Yin, 2000; Sivasailam et al., 2002). Unfortunately, empirical studies report, at best, an uncertain relationship between the display of TPA seals and consumer **trust** in Web merchants or decreased consumer concerns about online security or privacy risks (Kim, Steinfield, & Lai, 2004; Kimery & McCord, 2002; Mauldin & Arunachalam, 2002a, 2002b; Pennington, Wilcox, & Grover, 2003). If TPA seals are not effecting their intended impact on consumers’ perceptions of online merchant trustworthiness, research is needed to help us understand why this is so. **Signaling theory** (Spence, 1973, 1974) provides a framework for understanding how signals of trustworthiness, like TPA seals, operate and may help clarify why TPA seals seem to be failing in their effort to build consumer trust in online merchants.

According to **signaling theory**, to function as an effective indicator of trustworthiness, a TPA seal must satisfy three requirements: (1) it must be perceived within the visual field of the merchant’s Web site by the intended signal receiver, in this case, the online shopper; (2) its message must be accurately interpreted and comprehended by the receiver; and (3) it must be assessed as an honest and reliable indicator of the message it communicates. The current study focuses on accessing the