



## Leveraging social grouping for trust building in foreign electronic commerce firms: An exploratory study<sup>☆</sup>

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### ABSTRACT

Internet development has fueled e-commerce firms' globalization efforts, but many have met with only limited success. This often stems from the foreign firms' limited understanding of a focal country's local culture and idiosyncrasies. Foreign firms are usually viewed as out-group entities, which lowers consumers' trust in them. The extent of such a phenomenon varies. In locations where people are more skeptical of out-groups, a critical question is whether it is possible to transform such foreign out-group firms into in-groups, specifically with the support of popular social networking media. Based on Social Identity Theory and Trust Transference Process, five strategies leveraging social grouping and social ties to build trust for foreign electronic commerce firms were proposed. A survey was conducted to examine their effectiveness. The results suggest that social-grouping strategies are useful for in-grouping foreign out-group entities to build trust, and the effectiveness of strategies is determined by the social similarity and psychological distance between the consumer and the endorser. This has important implications for scholars and practitioners, both local and abroad, to leverage social grouping to boost Internet sales.

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### 1. Introduction

Due to the globalization of the Internet and the rapid development of electronic commerce (e-commerce), a number of companies are seeking to explore new markets even as they are subject to increasingly intense market competition. For example, many multinational e-commerce firms are attracted to China because of its fast-growing economy and huge market potential (eBay.com, Yahoo.com, Amazon.com, etc.). Although some have succeeded, many have failed and suffered significant financial losses, such as eBay China. Studying the failure of eBay China ([www.ebay.com.cn](http://www.ebay.com.cn)), researchers found that the eBay (China) website simply replicated the international eBay website. Although it featured the respective local language and contents (Ou & Davison, 2009; Ye, Hu, & Li, 2008), there was no significant adaptation to the context of China. Trust issues are a significant challenge for foreign companies as customers most likely will not view them as an indigenous platform. In a 2010 Business Leader Forum,

the speaker, Vice-President of a prominent Chinese online travel agency, attributed such challenges to a lack of “grassroots spirit” amongst these less successful foreign ventures. Foreign companies are less likely to be embraced by a community if they do not understand local norms and culture. As a result, it is important for foreign e-commerce firms to indicate their sincerity to do business locally by being integrated into the local culture.

When foreign firms set up websites to explore new markets in different countries, initial trust building is fundamental to their success (Choi & Geistfeld, 2004; Jarvenpaa, Tractinsky, & Saarinen, 1999). Replicating the original website by simply using the local language is not enough to build trust in foreign online stores (McKnight, Cummings, & Chervany, 1998; Zucker, Darby, Brewer, & Peng, 1996). Without integrating local in-group features, local consumers would view such foreign firms as out-group entities that lack social similarity (Zourrig, Chebat, Toffoli, & Medina-Borja, 2010). The social categorization of in-group and out-group based on social similarity and psychological distance is rooted in Social Identity Theory (SIT) (Tajfel & Turner, 1979). People usually behave more favorably to in-groups (e.g., local peers, friends) than out-groups (e.g., foreigners, foreign organizations), especially in collectivistic cultures (Doney, Cannon, & Mullen, 1998; Lee & Ward, 1998; Triandis, 1972). While similarity refers to matching attitudes, values, interests, and personality between people, social similarity emphasizes similarity based on social structure and organized social activities, such as relatives, friends, classmates (Turner

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& Onorato, 1999). A higher level of social similarity brings closer psychological distance. In this study, psychological distance refers to the social psychological distance-how distinct is the social target from the perceiver's self (Bar-Anan, Liberman, & Trope, 2006). A critical question that arises is whether the out-group foreign online stores can be converted into in-groups via social-grouping strategies to build trust. Social network media could provide such an opportunity for foreign companies to build social ties using socially similar cues in their grassroots campaigns. For example, more and more organizations set up their profiles in social network sites, such as Facebook.com or Renren.com (the most popular social network site in China), to foster an attachment with potential customers. There could be enormous potential for foreign companies to exploit the power of social networks to build trust and boost their sales and performance (Winer, 2009). Thus, this exploratory study will investigate the question:

*Can businesses leverage social similarity or ties to help build initial trust in new foreign online stores?*

By including local elements to build trust, a foreign online store could become part of customers' social in-groups. Based on Social Identity Theory and Trust Transference Theory, this study proposes trust-building strategies for foreign online stores that leverage social grouping and social ties. The effectiveness of these strategies to build trust will be compared and ranked in a survey. This exploratory study has implications for how businesses could leverage social networks and social ties to build customers' initial trust toward a foreign online shopping website. Social-grouping strategies could be one of the important factors for new online firms to consider to boost sales performance.

## 2. Theoretical background and research propositions

There has been much discussion of multinational firms' cross-cultural investment successes and losses. For example, while companies such as WalMart and P&G were able to successfully expand their businesses in China, researchers found that the e-commerce market is especially tough for foreign firms, based on a comparative case study of taobao.com and eBay China (Ye et al., 2008). In fact, eBay is not the only international IT giant that experienced difficulties in entering the Chinese e-commerce market. Yahoo entered the Chinese e-commerce market in 1999, expending a great deal of effort offering Chinese language services. However, because of the difficulties met in China, it transferred its China business to Alibaba in 2006, paying \$1 billion for a 40% stake in Alibaba (Schwankert, 2006).

While people not familiar with the situation popularly believe that failed e-commerce adoption in foreign countries is due to political influences, a more fundamental reason is that foreign companies are perceived as out-groups and it is difficult for them to draw in local consumers (Lim, Leung, Sia, & Lee, 2004; Sia et al., 2009). Local firms have advantages in initial trust formation since they are perceived to be in-group organizations that are well integrated in the local community by nature. In comparison, foreign online firms are perceived to have a lower level of trust (Cyr, Bonanni, Bowes, & Ilsever, 2005). A possible solution for foreign firms is to build trust by employing strategies to make them in-group entities (Sia et al., 2010).

### 2.1. Trust-building strategies

Trust is critical in Internet-based consumption behaviors and can facilitate Internet shopping intentions and behaviors (Brynjolfsson & Smith, 2000; Hong & Cho, 2011; Jarvenpaa et al., 1999; Keen, 1997; Lim et al., 2004). Conversely, lack of it can be a major barrier, especially when shopping at new or unknown

Internet stores (Brynjolfsson & Smith, 2000; Keen, 1997). For this study, we view trust as trustworthiness, the consumer's belief that an Internet store can be depended upon to adopt widely accepted business practices and would have the ability to deliver the purchased products or services, even when there is a possibility of loss during an Internet shopping transaction (Mayer, Davis, & Schoorman, 1995). This view of trust is consistent with that adopted in prior work on Internet shopping (Jarvenpaa et al., 1999).

In this study, we focus on initial trust building for first-time visitors to a foreign Internet firm operating in an Asian context. The in-grouping strategies for foreign online stores are based on unit-grouping strategies in initial trust building (Kramer, 1999; McKnight et al., 1998; Zucker et al., 1996). Strategies that utilize shared common characteristics and identity with the trustor have proven their effectiveness in building initial trust. This cognitive process of initial trust building is unit grouping (Sia et al., 2009; Stewart, 2003). Customer endorsement is an example of a unit-grouping strategy, which is commonly used in practice. Unit grouping could be a useful strategy to build trust because of peoples' views of in-groups and out-groups, a categorization that is rooted in Social Identity Theory. However, customer endorsement is not always as effective as expected. In collectivistic cultures, out-group customers, such as foreigners, are less trusted than in-group customers, such as local customers (Lim, Sia, Lee, & Benbasat, 2006).

Trust formation through unit-grouping strategy is based on the Trust Transference Theory proposed by Stewart (2003) and Swan and Nolan (1985). Widely accepted in e-commerce trust-building research (Lim et al., 2006; Pavlou & Gefen, 2004; Sia et al., 2009), trust transference occurs when the trust of a known entity is transferred to another unknown entity via their association (Lim et al., 2006; Pavlou & Gefen, 2004; Stewart, 2003). Trust can be transferred from different kinds of sources, such as an individual, a context. Attribution Theory is the theoretical basis for trust transference (Kelley, 1973). It is about how people make causal inferences: an individual will make attributions of events by inferring from existing knowledge. In the absence of knowledge about the reputation of an unknown e-commerce website, people infer its trustworthiness based on the presence of its association with credible elements (e.g., the context, third parties). Trust transference has been popularly employed in advertisements for new or unknown products involving well-known celebrities or public figures.

Other cognitive processes to build initial trust include reputation categorization and institutional assurances (Stewart, 2003). Positive reputation categorization builds trust through the trustor associating the trustee with an entity of good reputation (Stewart, 2003). Organizational endorsement, rooted in reputation categorization, is one of the most commonly used trust-building strategies based on the theoretical grounding of trust transference processes (Cheskin Research and Studio Archetype/Sapient, January 1999; Sia et al., 2009; Stewart, 2003; Swan & Nolan, 1985). The strategy of institutional assurances uses instruments such as regulations, guarantees by accreditation agencies, etc., to build trust. In previous studies, institutional assurances were controlled because they are typically viewed as a hygiene factor for online purchases (Lim et al., 2006).

### 2.2. Social identity and self-categorization

The proposed in-grouping strategies investigated in this study are also grounded in Social Identity Theory. Social identity is the basis for unit-grouping trust building. It focuses on how the social context affects interpersonal and intergroup relations and behaviors. A social identity is an individual's self-concept, which comes from perceived membership in a relevant social group. Based on Social Identity Theory, people categorize others into

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