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The impact of consumer trust on attitudinal loyalty and purchase intentions in B2C e-marketplaces: Intermediary trust vs. seller trust

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ABSTRACT

The online merchant of an e-marketplace consists of an intermediary, providing the market infrastructure, and the community of sellers conducting business within that infrastructure. Typically, consumers willingly buy from unknown sellers within an e-marketplace, despite the apparent risk, since they trust the institutional mechanisms furnished by the relatively well-known intermediary. Consumers' trust in one component of the e-marketplace merchant may not only affect their trust in the other, but also influence the way consumers make online purchases. This paper explores the impact of trust on consumer behavior in e-marketplaces. An empirical study has been conducted to accomplish our research objectives, using a questionnaire survey of 222 active e-marketplace shoppers in Korea. The results reveal that consumer trust in an intermediary has a strong influence upon both attitudinal loyalty and purchase intentions, although consumer trust in the community of sellers has no significant effect on the two constructs representing consumer behavior. In addition, it was found that trust is transferred from an intermediary to the community of sellers, implying that the trustworthiness of the intermediary plays a critical role in determining the extent to which consumers trust and accept the sellers in the e-marketplace. This paper offers some implications from the findings of the research.

1. Introduction

Today, online marketplaces are growing at an unprecedented rate, and the volume of transactions in e-marketplaces is expanding. One obvious reason for this new trend is that online consumers find it more beneficial to shop at e-marketplaces than at digital storefronts, due to the reduced purchasing costs resulting from the ability to shop comparatively among multiple sellers. Unfortunately, the number of incidents of fraud and other victimization in e-marketplaces has been on the rise too. For example, Internet auction fraud has been, by far, the most reported offense, comprising 42.8% of 49,711 total referred cases in 2001, 61.0% of 63,316 cases in 2003, and 35.7% of 219,553 cases in 2007 (Internet Crime Complaint Center, 2007). E-marketplaces are especially vulnerable to threats originating from transactions conducted over the Internet. This is chiefly because the e-marketplace business model involves an intermediary who connects sellers with buyers, and intermediaries are not responsible for controlling the sales transactions conducted by the sellers.

Online marketplaces have a range of IT-enabled institutional mechanisms (e.g., feedback mechanisms, third-party escrow services, and credit card guarantees) in place to ensure that buyer trust in the community of online sellers comes into existence (Pavlou & Gefen, 2004). Besides, electronic intermediaries minimize transaction risks by establishing policies and rules to build trust in the sellers (Clark & Lee, 1999). Nevertheless, consumers' discontent with the fundamental lack of trust on the part of e-marketplaces as a whole remains a barrier to the growth of intermediary-based e-commerce. Trust in e-marketplaces often becomes a major issue for two reasons. First, e-marketplaces typically consist of SOHO (small office home office) sellers who process a limited volume of transactions daily and handle returns or exchanges with limited manpower resources. Second, the e-marketplace business model involves two parties who act to serve customers for transactions: namely, an intermediary and sellers. For that reason, it may often become obscure who is responsible for problems that may occur in the course of order fulfillment. As competition among the service providers becomes more intense, most companies focus on short-term goals, like increasing sales and transaction volumes, rather than long-term goals, like improving consumer trust and sustaining loyal customers. It is imperative that e-marketplaces take steps to establish trust so that consumers can engage in transactions with good faith in the service providers of the marketplace.

The trust literature suggests that trust importantly affects consumer behavior in electronic commerce. Since in online marketplaces, trust is viewed as consisting of two categories including intermediary trust and seller trust, it will be essential to understand how these two types of consumer trust influence purchase

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behavior. However, related studies (for example, Pavlou & Gefen, 2004; Verhagen, Meents, & Tan, 2006) have focused on examining the effects of only seller trust on consumers' purchase behavior. Little attention has been paid to a comparative examination of the direct influence of intermediary trust and seller trust on purchasing. In addition, it will be worthwhile to study possible transfer of trust between an intermediary and the community of sellers. Provided that the transfer occurs, it is arguable that consumers put reliance on unknown sellers associated with the trustworthy intermediary. Meanwhile, while trustworthiness and trust are two related, but distinct, concepts, researchers tend to use the terms interchangeably. Perceived trustworthiness of a merchant is often a determinant of overall trust in that merchant, and therefore there exists a need to investigate the influence of merchant trustworthiness on the subsequent trust in the e-marketplace setting.

This paper explores the impact of buyer's trust in online marketplaces on consumer behavior. It focuses on the following three Research Questions (RQ) that will be answered through an empirical study. RQ 1: "How does each factor of trustworthiness affect consumer trust in an intermediary?" RQ 2: "Is trust in an intermediary transferable to trust in the community of sellers in online marketplaces?" RQ 3: "How does trust in an intermediary and trust in the community of sellers respectively influence customer's attitudinal loyalty and purchase intentions in online marketplaces?"

2. Literature review

In this section, we present a theoretical background of the present research. First, we discuss the trust concept in the context of electronic commerce. Second, three attributes of merchant trustworthiness, including ability, benevolence, and integrity, are introduced as antecedents of consumer trust in a merchant. Thirdly, we review literature related to two categories of trust in e-marketplaces, namely trust in an intermediary and trust in a community of sellers. Finally, we will take a look at the impact trust has on consumer behavior, more specifically customer loyalty and purchase intentions.

2.1. What trust means in e-commerce

The Merriam-Webster Dictionary (2010) defines trust as "assured reliance on the character, ability, strength, or truth of someone or something." Despite this seemingly simple nature of the definition, trust is perhaps one of the most highly challenging terms whose concepts are hardly agreed upon by researchers within diverse academic disciplines. Such disagreements are rooted in the differences in viewpoints about the concept. Trust in marketing involves a consumer's perceived reliability on the brand, products, or services of a merchant (Flavian, Guinaliu, & Gurrea, 2006), whereas trust in the context of politics or international relations reflects a situation where one party does not betray another party in pursuit of financial or other imminent interest. In general terms, trust is defined as the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party (Chai & Kim, 2010; Mayer, Davis, & Schoorman, 1995). For that reason, the trustor may engage in activities where there may exist risks (Gefen, 2000). Therefore, accepting trust involves taking a certain degree of risk.

In electronic commerce, trust remains a critical issue because consumers face the challenge of buying online from an unfamiliar merchant a product or service that they cannot actually see or touch. Trust plays a central role in helping consumers overcome perceptions of risk and insecurity (McKnight, Choudhury, & Kacmar, 2002). Since privacy and security concerns are major barriers to the Internet channel, without trust customers will not give vendors personal information, including credit card information (Hoffman, Novak, & Peralta, 1999).

Trust is a governance mechanism in exchange relationships characterized by uncertainty, vulnerability, and dependence (Bradach & Eccles, 1989; Jarvenpaa, Tractinsky, & Vitale, 2000). Because trust has been found to affect the buying behavior of consumers (Shurr & Ozanne, 1985) and to serve as a key determinant of long-term orientation in buyer–seller relationships (Ganesan, 1994), it has become crucial for online merchants to build consumers' trust.

2.2. Trustworthiness attributes as antecedents of trust

Mayer et al. (1995) argue that there are three characteristics of a trustee that cause them to be more or less trusted. These factors of trustworthiness include ability (or competence), benevolence, and integrity. *Ability* enables a party to have influence within some specific domain. Ability in the context of electronic commerce may include good product knowledge, fast delivery, and quality customer service, among others. *Benevolence*, according to Mayer et al. (1995), refers to the extent to which a trustee is believed to want to do good to the trustor, aside from an egocentric profit motive. A trustee may want to help a trustor merely from warm-heartedness, neither because the trustee is required to nor because there is any extrinsic reward for the trustee. Finally, *integrity* has to do with the trustor's perception that the trustee adheres to a set of principles that the trustor finds acceptable (Mayer et al., 1995). An electronic commerce merchant may try to maintain integrity by abiding by shopping rules and policies specified on their Website.

Lee and Turban (2001) suggest that the three attributes of trustworthiness introduced above are conducive to the building of trust. In a similar context, McKnight and Chervany (2002) argue that trust in a Web vendor consists of trusting beliefs and trusting intentions, and that these beliefs serve as a good predictor of trusting intentions. According to their theory, a consumer who believes that a Web vendor meets his or her expectations in terms of integrity, competence, and benevolence is likely to have a strong intention to trust that vendor, eventually ending up purchasing from that vendor. The intention to trust a vendor refers to the inclination to rely on the other party and to be vulnerable to the behavior of that party (McKnight et al., 2002). In this regard, the present paper regards trustworthiness attributes as important antecedents of consumer trust.

2.3. Trust in e-marketplaces: intermediary trust vs. seller trust

Online transactions in digital storefronts involve trust in dyadic relationships (i.e., one-to-one relationship between a buyer and a seller). Dyadic trust is formed when the buyer has a belief that the transaction partner will behave with goodwill and in a favorable way, although the acceptance of trust involves taking certain risks (Doney & Cannon, 1997). On the other hand, trust in online marketplaces is more intricate, since the online marketplace business model involves two categories of service providers: an intermediary and the community of sellers. Consumers have to deal with trust in the community of sellers (i.e., one-to-many relationship between a buyer and many sellers) as well as trust in an intermediary (Pavlou & Gefen, 2004). Whereas intermediary trust concerns the intermediary as mediating 'care-taker', seller trust reflects perceptions of trust in the counterpart of a transaction (Verhagen et al., 2006).

'Intermediary trust' refers to the security one feels regarding the efforts of the intermediary to apply guarantees, regulations, safety nets or other structures effectively (Shapiro, 1987). Typically,