

Chapter 61

Investigating the Associated Factors of Trust on Online Transactions

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ABSTRACT

Although e-commerce is growing rapidly, it has not achieved its potential. A survey shows that more than fifty percent of online carts are abandoned. This paper investigates the associated factors of trust that influence customers in conducting online transactions. Through relevant literature study and questionnaire, this paper shows that privacy and security significantly affect customers' interpersonal trust on online transactions. The lower the customer perception of risk, the more they are inclined to conduct online transactions. The quality of the website also affects the customers' trust on online transactions. These aspects are strongly correlated to the reputation of the online merchants, which implicates the success of e-commerce itself.

INTRODUCTION

E-commerce, in particular online transaction, has been growing rapidly due to the increasing number of internet users. This growth has attracted various communities as a refreshingly new medium for consumption (Kuhlmeier & Knight, 2005). Online shopping with online transaction has been conducted by eighty five percent of the world's online population (approximately 875 million people) (Karim, 2011).

One of the most challenging issues with online transaction is the trust issue. This issue rises as websites – the media for online transactions – might be counterfeited, transactions can be altered and identities can be forged, as well as online viruses and malicious hacking (Argawal & Shankar, 2003; Princeton Survey Research Associate, 2002). Because of this issue, forty percent of consumers feel that their online privacy is put at risk, and they would be apprehensive about giving out their financial information to unknown businesses (Flavian & Guinaliu, 2006).

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This paper investigates the associated factors of trust that influence the consumers' decision to conduct online transactions. For the purpose of this paper, e-commerce refers to the electronic exchange between business-to-consumer, which is solely based on an online retailer and a consumer and not taking into account any third party platforms used to aid their transmissions. Within such context, the exchange is then referred to online transaction.

In the next chapter, literature review will be presented in identifying the associated factors that influence online transactions. A selected number of associated factors which are perceived to be important are discussed. After the literature review chapter, the research methodology will be explained, where the selected associated factors from literature review serve as the basis in developing the questionnaire for data collection. The results are discussed in the following chapter, and concluded in the last chapter of this paper.

CONSUMER TRUST ON ONLINE TRANSACTION

There are various studies on the role of trust in transactions. Boeyen and Moses argue that trust can be categorized into two types, i.e., direct and third-party trust (Boeyen & Moses, 2003). Direct trust would be formed by two parties themselves, while third-party trust would be formed by the help of a reliable party known to both parties involved (Salo & Karjaluoto, 2007). In online transaction, since the transactions are mostly conducted by parties who are unfamiliar to each other, the third-party trust plays a more important role. Examples of the reliable third-party would be the online payment service providers, such as Visa, Paypal, MasterCard, who would ensure the secure financial payment protection to their consumers. It could therefore be argued that consumer's trust on the reliable payment system has a significant impact on the growth of e-commerce.

Research indicates that trust is a critical component that induces online transactions and on the other hand, converting online visits into purchases remains a challenge (Eastlick & Lotz, 2011). Conducting online payment often requires user details including financial related information, such as payment card numbers and codes, and billing address. Often the users need to register before being able to proceed to the payment. This registration is however not required by the online payment provider, but by the online merchant, which will take place after the consumer stores their selected items on the shopping cart. As a result, consumer might abandon the cart and cancel the online transaction. In this way, the consumer reduces online privacy risk by not giving up private details to unknown party (Featherman, Miyazaki & Sprott, 2010). This fact becomes the basis for looking further for the associated factors of trust.

Realising the role of trust in e-commerce, it is then explicable to understand the associated factors of trust in e-commerce. McKnight and Chervany (2002) describe that trust depends on the e-business (interpersonal trust), environment of the web (institutional trust) and the consumer's trust (dispositional trust) (McKnight & Chervany, 2002). Though these types of trust might intertwine with each other, the interpersonal trust would be the fundamental one that would in the end be the determining type in consumer's decision making.

Furthermore, Kong and Hung (2006) shows that the website quality is a very important element in forming consumer trust attitude as it exists in both the peripheral and central sphere (Kong & Hung, 2006). This could mean that consumers are therefore heavily influenced by what they physically see rather than what they intrinsically perceive. It could be argued that once consumers have gone via the peripheral route and transacted with an e-commerce, and then if they were to deal with the same e-commerce

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