IDEA GROUP PUBLISHING

701 E. Chocolate Avenue, Suite 200, Hershey PA 17033-1240, USA
Tel: 717/533-8845; Fax 717/533-8661; URL-http://www.idea-group.com

ITP4973

# Commitment and Trust on B2C E-Commerce

Edward T. Chen
Management Department, University of Massachusetts Lowell, 1 University Ave., Lowell, MA 01854, edward_chen@uml.edu

## ABSTRACT

*Commitment and trust are two important factors in relationship marketing. The sharp meltdown of many Internet companies in the past three years inspires us to investigate the commitment and trust factors in B2C e-commerce. We postulate that there is a lack of relationship commitment and trust among the electronic commerce partakers. This paper focuses on the business to consumer segment of the electronic commerce regarding the effects of relationship commitment and trust on customer's propensity to leave. After surveying more than 260 online consumers, we found that the commitment and trust factors play vital role in customer retention that supports our hypotheses.*

## INTRODUCTION

Information is critical to marketing activities. Effective marketing demands a highly enriched stream of information. Electronic commerce (EC) is an emerging technology that has the capability to provide the right information in the timely fashion and in the right style. Electronic commerce innovates the process of buying, selling, and exchanging of products, services, and information through the computer networks and the Internet. The dramatic growth of EC has been facilitated by the expansion of access to computers and the Internet in workplaces, homes, and schools. Successful marketing depends on the satisfaction of the consumers with the products and services rendered by the company.

Because the current EC lacks security and reliability, many EC experts list trust as a critical success factor in EC (Ratnasingham, 1998; Hoffman et al., 1999; Turban et al., 2000; Heen et al., 2000). Trust is the foundation of commerce. However, trust can be decreased by the user uncertainty regarding the use of technology, by the lack of initial face-to-face interactions, and by the lack of enthusiasm among the parties. Even Bill Gates of Microsoft vows that security is the number one goal of its Windows operating system.

Past research has focused on the theoretical relationship generally based on trust and security. The purpose of this paper is to explore the other possible factors besides trust in the success of B2C EC. Morgan and Hunt (1994) proposed a KMV model, and they positioned the relationship commitment and trust as the key constructs. With these constructs, we attempt to explore the links between switching costs, relationship benefits, and propensity to leave. EC represents the future of commerce, with most obvious driver—Internet. With the recent recovery of economy in US, it seems that most of the major EC companies start to generate sizable profits. For this reason, the establishment of such links is important for the purpose of improving the customer retention and making long-term profits in B2C EC.

## LITERATURE REVIEW

Based on the work of Morgan and Hunt (1994) and other EC researchers, a research model is developed to examine the effects of factors of switching costs, and relationship benefits on the factor of propensity to leave through the key mediating variables of relationship commitment and trust as shown in Figure 1.

The operational measures and definitions are explained below. Theoretical hypotheses are derived from the research model are depicted in the next section.

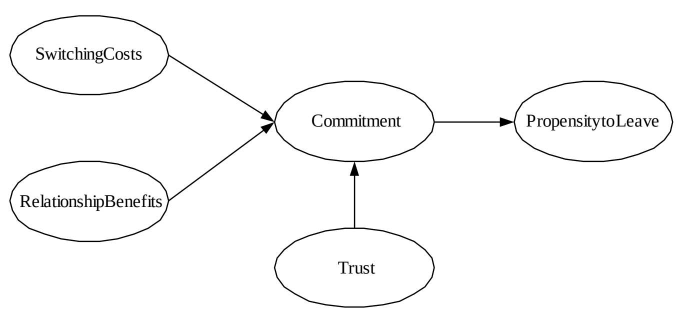
*Trust:* Trust is defined as "when one party has confidence in an exchange partner's reliability and integrity" (Morgan and Hunt, 1994). Trust is a willingness to rely on an exchange partner in whom one has confidence (Moorman et al., 1993). Both definitions also highlight the importance of mutual confidence. The importance of trust is based on the potential use of the technology to increase information sharing. Trust increases the probability of a trading partner's willingness to expand the amount of information sharing through EDI and explore new mutually beneficial arrangements (Hart and Saunders, 1997). As trust declines, people are increasingly unwilling to take risks and demand greater protections against the probability of betrayal. In electronic commerce, security and reliability refers to positive trust that is shown in the consistency and assurance between what a trading partner says and actually does (Hart and Saunders, 1997). Therefore, trust among the trading partners in electronic commerce reinforces the prospect of continuity in a relationship and a commitment.

*Commitment:* Relationship commitment is defined as"an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it" (Morgan and Hunt, 1994). Commitment is seen as central because it not only leads to such important outcomes as decreased turnover (Porter et al., 1974), higher motivation (Farrell and Rusbult, 1981), and increased organizational citizenship behaviors (Williams and Anderson, 1991), but it also results from such things that can be influenced by the firm as recruiting and training practices (Caldwell et al., 1990), job equity (Williams and Hazer, 1986), and organizational support (Eisenberger et al., 1990).

*Switching costs:* An assumption in literature is that a terminated party will seek an alternative relationship and have "switching costs," witch lead to dependence (Heide and John, 1988; Jackson, 1985). Heide and John (1988) described that switching costs are exacerbated by idiosyncratic investments, that is, investments that are difficult to switch to another relationship. Also, Dwyer et al. (1987) proposed that the buyer's anticipation of high switching costs gives rise to the buyer's interest in maintaining a quality relationship. As to the switching costs are actually very low in the Internet, the switching costs lead to an ongoing relationship being viewed as important and generating commitment to the relationship. Therefore, relationship commitment results when customers perceive the costs of terminating the relationship are high.

*Relationship benefits:* One of the benefits of doing business over the web is that it enables companies to better understand their customers' needs and buying habits, which in turn enables them to improve and

*Figure 1: Research Model*



frequently customize their future marketing efforts. As Webster (1991) explains to industrial marketers, "the firm's procurement strategy may be the most important ingredient in its ability to deliver superior value to its customers". Also, Gale (1994) described that companies succeed by providing superior customer value. In the B2C EC, because partners that deliver superior benefits will be highly valued, customers will commit themselves to establishing, developing, and maintaining relationships with such partners (Morgan and Hunt, 1994). Therefore, it is important for customer retention that customers receive superior benefits from their partnership-relative to other options. For example on such dimensions as product price, service satisfaction, and product performance, will be committed to the relationship.

*Propensity to leave:* Propensity to leave is the perceived likelihood that a partner will terminate the relationship in the reasonably near future (Bluedorn, 1982). We posit that the strong negative relationship exists between organizational commitment and propensity to leave the organization (Mathieu and Zajac, 1990). The negative relationship also exists between commitment and propensity to leave the e-business company (Morgan and Hunt, 1994).

## HYPOTHESES

The customer's evaluation of post-purchase phase and his or her satisfaction and commitment is mainly determined by the benefits, delivered by the product or service, especially in the consumer goods sector (Lohrum, 2000). In the virtual Internet world, therefore, the relative and absolute levels of benefits for customer will have influence on the customer's relationship commitment. Once the consumers have been drawn to the site and they have been engaged with suitably interactive and valuable content, the customers will produce switching costs with the web site (Kiani, 1998). This can take place by keeping the site "fresh" through continuously renewed content and providing content that is inherently changeable in an ongoing basis, such as real-time news and stock quotes. As to the switching costs are actually very low in the Internet, the switching costs lead to an ongoing relationship being viewed as important and generate commitment to the relationship. Thus, the following two hypotheses are proposed:

*H1: There is a positive relationship between relationship benefits and relationship commitment.*
*H2: There is a positive relationship between switching costs and relationship commitment.*

Relationships characterized by trust are so highly valued that parties will desire to commit themselves to such relationships (Hrebiniak, 1974). And, Social exchange theory explains this casual relationship between commitment and trust through the principle of generalized reciprocity, which holds that "mistrust breeds mistrust and as such would also serve to decrease commitment in the relationship and shift the transaction to one of more direct short-term exchange" (McDonald, 1981). Thus, the following one hypothesis is proposed:

*H3: There is a positive relationship between trust and relationship commitment.*

A shaky relationship with customer is costly to business (Morgan and Hunt, 1994). Developing a new customer is even more costly than retaining a current customer. Therefore, we posit that customer retention can be achieved through fostering current relationship commitment. Hence, we propose the following hypothesis:

*H4: There is a negative relationship between relationship commitment and propensity to leave.*

## RESEARCH METHODOLOGY

The major instruments are adopted from the research work of relationship marketing in customer (Hennig-Thurau, 2000) and the commitment-trust theory of relationship marketing (Morgan and Hunt, 1994). Questionnaire was created and registered on a commercial web site, which is specialized in online survey. The survey was also posted on the BBS of some universities with invitation mailed to students. Prizes such as digital cameras, DVD players, and gift cards were offered as rewards to attract the respondents. The respondents are required to have experience of online transaction to be able to participate in the survey. All the respondents were assured that their responses would be kept confidential. A total of 263 questionnaires were completed and returned. About 51 percent of the respondents were male. Over 66 percent of respondents were 20 year-old or above. In addition, the respondents had a high education background; more than 75 percent had Bachelor degrees.

## RESULTS AND DISCUSSION

The research model contains a set of two-stage causal relationships from switching cost and relationship benefits to propensity to leave. It calls for a statistical analysis using structural equation modeling (SEM). Hence, the LISREL was applied to analyze the data collected from the questionnaires. Results from both the explanatory factor analysis (EFA) and the confirmatory factor analysis (CFA) validate the instruments adopted from previous research (Hennig-Thurau, 2000, Morgan and Hunt, 1994). The reliability test using Cronbach's ± also confirms the appropriateness of these questions for this study. The results of these construct validity and reliability tests on switching cost, relationship benefits, and propensity to leave are listed in Table 1. The results of path analysis generated from the LISREL are displayed in Figure 2.

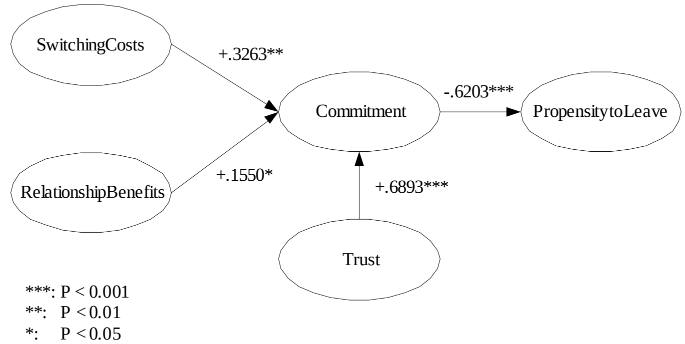
The proposed research model suggests that relationship benefits and switching costs to the commitment, and trust to commitment have positive relationships. There is a negative relationship between commitment and propensity to leave. The results show that relationship benefits and switching costs are significantly related to commitment, supporting hypotheses H1 and H2. Trust is significantly related to commitment and then the commitment is significantly related to the propensity to leave, which support H3 and H4. Thus, the results of this study confirm the literature findings.

Customer commitment in this study becomes the key variable to avoid customer's propensity to leave. Maximizing the switching costs and the relationship benefits will enhance the customer's commitment. Company can offer the products at the right price with the right product description, improve customer service, and promote the product features to strengthen the relationship benefits. In general, it is more costly to develop a new customer than to retain a customer. Finally, customers who have switching costs with the company develop higher level of relationship commitment. Therefore, company and manager must think highly the relationship benefits and switching costs in the B2C application.

*Table 1. Results of Construct Validity and Reliability Tests*

| Factor | Items | Loading | Cronbach's α |
|---|---|---|---|
| Switching Cost | 5 | 0.72 | 0.72 |
| Relationship Benefits | 4 | 0.65 | 0.75 |
| Propensity to Leave | 3 | 0.92 | 0.93 |

*Figure 2. Results of LISREL Path Analysis*



## CONCLUSION

The survey results from B2C consumers support the hypotheses stipulated in this study. The study confirms that the research model is useful and robust in revealing and explaining relationship benefits, switching costs, commitment and trust in response to customer's propensity to leave. In addition, commitment and trust are the critical factors in affecting customer's propensity to leave.

According to the results of this study, relationship commitment is explained by direct effects of relationship benefits, switching costs, and trust. Through the commitment, all the antecedents to the commitment and trust will indirectly influence on the customer's propensity to leave. It also finds that trust has indirect effect on propensity to leave through commitment. Therefore, commitment is important in developing B2C EC marketing strategies. Marketing managers should consider the long-term commitment and mutual trust in their marketing strategic plans. IT managers can design an easy navigation system with multiple communication medium such as online chat, message board, and prompt e-mail response to build up customer trust.

There are many issues for future research, such as how to improve the commitment and trust and to examine other outcomes of developing commitment and trust. Our results show that the commitment, switching costs, and trust are the antecedents of commitment in the B2C EC. Future study can explore other factors that may affect the commitment and trust, such as opportunistic behavior, product performance, and shared value.

## REFERENCES


Bluedorn, A.C. (1982). The theories of turnover: Causes, effects, and meaning, in Research in the Sociology of Organizations. Bacharach, S. B. ed. Greenwich, CT: JAI Press.

Dwyer, P.H. and Oh, S. (1987). Developing Buyer-Seller Relationships. *Journal of Marketing 51*, 11-27.

Eisenberger, R., Peter, F. and Davis-LaMastro, V. (1990). Perceived Organizational Support and Employee Diligence, Commitment, and Innovation. *Journal of Applied Psychology 75*, 51-59.

Farrell, D. and Rusbult, C. (1981). Exchange Variables as Predictors of Job Satisfaction, Job Commitment, and Turnover: The Impact of Rewards, Costs, Alternatives, and Investment. *Organizational Behavior and Human Performance 28*, 78-95.

Gale, B. T. (1994). Managing Customer Value. New York: The Free Press.

Heen, P., Balance, G., Chan, S. and Schrump, S. (2000). Electronic Commerce Relationship: Trust by design. Upper Saddle River, NJ: Prentice-Hall.

Hart, P. and Saunders, C. (1997). Power and Trust: Critical Factors in the Adoption and Use of Electronic Data Interchange. *Organization Science 8*(1), 23-41.

Heide, J. B. and John, G. (1988). The Role of Dependence Balancing in Safeguarding Transaction-Specific Assets in Conventional Channels. *Journal of Marketing 52*, 20-35.

Hennig-Thurau, T. (2000). Relationship Marketing Success Through Investments in Customers. in Relationship Marketing. Hennig-Thurau, T. and Hansen, U., ed., Berlin: Springer.127-146.

Hrebiniak, L. G. (1974). Effects of Job Level and Participation or Employee Attitudes and Perceptions of Influence. *Academy of Management Journal 17*, 649-662.

Hoffman, D. L., Novak, T. P., and Peralta, M. (1999). Building Consumer Trust Online. *Communications of the ACM 42*(4).

Jackson, B. B. (1985). Winning and Keeping Industrial Customers, Lexington, KY: Lexington Books.

Kiani, G. R. (1998). Marketing opportunities in the digital world. *Internet research 8*(2), 185-194.

Lohrum, M. (2000). Relationship Marketing Success Through Investments in Products. In Relationship Marketing, Hennig-Thurau, T. and Hansen, U. ed., Berlin: Springer, 127-146.

Mathieu, J. E. and Zajac, D. M. (1990). A Review and Meta-analysis of the Antecedents, Correlates, and Consequences of organizational Commitment. *Psychological Bulletin 108*, 171-194.

McDonald, G. W. (1981). Structural Exchange and Marital Interaction. *Journal of Marriage and the Family*, 825-839.

Moorman, C., Deshpande, R. and Zaltman, G. (1993). Factors Affecting Trust in Market Research Relationships. *Journal of Marketing*, 81-101.

Morgan, R. M. and Hunt, S. D. (1994). The Commitment-Trust Theory of Relationship Marketing. *Journal of Marketing*, 20-38.

Porter, L. W., Richard, M. S., Richard, T. M. and Paul, V. B. (1974). Organizational Commitment, Job Satisfaction, and Turnover Among Psychiatric Technicians. *Journal of Applied Psychology 59*, 603-609.

Ratnasingham, P. (1998). The Importance of Trust in Electronic Commerce, *Internet Research 8*(4), 313-321.

Turban, E., Lee, J., King, D. and Chung, H. M. (2000). Electronic Commerce: A Managerial Perspective, Upper Saddle River, NJ: Prentice Hall, 84-112.

Webster, F. E. (1991). Industrial Marketing Strategy, 3rd ed., New York: John Wiley & Sons.

Williams, L. J. and Anderson, E. A. (1991). Job Satisfaction and Organizational Commitment as Predictors of Organizational Citizenship Behaviors and In-Role Behaviors. *Journal of Management 17*(3), 601-607.

Williams, L. and Hazer, J. T. H. (1986). Antecedents and Consequences of Satisfaction and Commitment in Trust Models: A Reanalysis Using Latent Variable Structural Equations Methods, *Journal of Applied Psychology 71*, 219-223.