

# Chapter 16

## Internet Exchange and Forms of Trust

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### ABSTRACT

*All economic exchange entails some uncertainty, but uncertainty is exacerbated in periods of social change that disrupt conventional patterns and modes of exchange. The increasing reliance on the Internet as a medium for exchange has greatly increased uncertainty, raising particular problems of trust between parties. This study examines how information that may reduce uncertainty affects individuals' trust in online exchange. Within an experimental marketplace, subjects make purchase decisions with a series of simulated vendors. Subjects receive information about vendors in the form of ratings of transaction security that vary as to the source of reputation information (interpersonal vs. institutional sources) and the content of information (rating of reliability vs. capability for engaging in secure transactions). Subjects are more likely to trust vendors when given reputation information from institutional sources, but they do not differentiate capability from reliability information in evaluating vendors in this context.*

### INTRODUCTION

A recent radio news story described a now common 21<sup>st</sup> century event: the closing of a family-owned retailer after 70 years of selling sheet music in New York City (Adler, 2009). Former patrons reminisced

that the shop was a well-known, reliable source not only of musical scores for every imaginable instrument and voice, but also of advice regarding how various editions of the same score were suited to the needs of each buyer. While some noted that online sources now provide access to many of the same scores, they also suggested that customers would no

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longer receive the personalized service that they had previously enjoyed. Leading conductors as well as novices had relied on the shop to reduce their uncertainty surrounding each purchase.

Virtually all economic exchange entails some uncertainty; there is often asymmetry of information between buyer and seller and there is no guarantee that a partner will behave as promised for exchanges that are asynchronous. Periods of social change can exacerbate uncertainty by introducing new exchange partners and situations. For example, in the industrial revolution, major demographic shifts from urban and international migration increased contact among strangers and across cultures, complicating exchange. Industrialization further introduced new forms of organization (e.g., bureaucratic factories) and new types of exchange (e.g., wage labor) (Perrow, 2002). Increased uncertainty regarding potential partners and exchange situations meant that social actors often could no longer rely on *interpersonal* trust, based in established relationships with known others. Instead, new *institutions* were created to reduce uncertainty and facilitate the trust required for exchange (Shapiro, 1987; Zucker, 1986).

Increasing reliance on the Internet as a medium for exchange has greatly increased uncertainty in transactions by inviting contact between unknown trading partners in new and foreign exchange situations. Uncertainty is even greater on the Internet because potential exchange partners may be anonymous or at least have no fixed identity (Friedman & Resnick, 2001). Given such high levels of uncertainty and the unique opportunity to observe exchange in a new environment, it is not surprising that much research across many disciplines has been devoted to the question of trust in online exchange (Baye, 2002; Camp, 2000; Cheshire & Cook, 2004; Falcone *et al*, 2001; Friedman & Resnick, 2001; Kollock, 1999; Lunn & Suman, 2002).

Uncertainty may be mitigated by information received from third parties, whether by peers or institutional actors. This project investigates how

different sources and types of information about vendors affect propensity to trust in and purchase from online vendors. In the next section, we describe differences between interpersonal and institutional trust. We then describe some theoretical and empirical studies of trust mechanisms used in online exchange. Next we describe a laboratory experiment that examines how different types of information from interpersonal or institutional sources affect exchange in an online marketplace. Finally, we discuss the implications and limitations of our study, including questions remaining for future research.

## **BACKGROUND**

Social conditions that increase uncertainty are often viewed as problems of trust. When actors depend on each other for valued outcomes, they are vulnerable to others' choices; in these conditions, any uncertainty about others' motives and future actions raises a fundamental dilemma of trust (Coleman, 1990; Hardin, 2002; Heimer, 2001; Luhman, 1979; Molm *et al* 2000). Trust is generally relevant for situations in which "participants are uncertain and vulnerable – they lack information about what others can and will do, but they also have a stake because they cannot achieve their objectives without the cooperation of others" (Heimer, 2001, p.42). According to Bacharach and Gambetta (2001), uncertainty is the primary problem of trust.

### **Uncertainty and Forms of Trust**

We specifically define trust as an actor's positive expectations of an exchange partner's conduct, such that the actor is willing to take some action that makes her vulnerable to her partner's behavior (Barber, 1983; Coleman, 1990; Garfinkle, 1967; Hardin, 2002; Luhman, 1979; Schutz, 1970). Russell Hardin specifies trust as a three-part relation, such that A trusts B to do X, though we rarely

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