The Role of Proximity in Willingness to Transact: The Effects of Trust and Culture

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THE ROLE OF PROXIMITY IN WILLINGNESS TO TRANSACT: THE EFFECTS OF TRUST AND CULTURE

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Abstract

We seek to operationalise a new construct, proximity, and identify its role in customers’ willingness to transact online. Trust is a well studied phenomenon in e-commerce, but it falls short in explaining some hitherto intangible aspects of online transactions such as how users feel about doing business with a particular company. There are clearly cultural differences in the need for face to face contact when doing business which spill over into the world of e-commerce. We use the proximity construct to effectively explain some differences in behavioural intention that cannot be explained by culture or trust alone.

Introduction

This paper introduces the concept of Proximity as a way of describing how close or comfortable a user feels before committing to a transaction. We propose that individuals are more likely to be receptive to and commit to a transaction when they feel close to the transacting party. For example, we suggest that a person is more likely to buy a book from a local book bookstore than from one across town or in another country. The main reasons for this centre around the ease of buying the book locally versus organising the sale from another country; it is easier to return it if there is a problem. The user feels more comfortable with a local organisation – it is closer (both physically and emotionally/psychologically), i.e., it is in closer proximity to the user. Thus we assert that one always chooses the closest item unless one further away is substantially better.

Other factors sway the decision. For example, the cost of the book is a significant factor, and a person may consider buying a book from another country if it were to be substantially cheaper, provided the time taken for it to arrive and the risk of the transaction failing were deemed to be acceptable. This prompts the question “How come Amazon.com is so successful?” We suggest the reason for this is actually a complex set of factors acting together, including Proximity, to make the user feel more comfortable and closer to the organisation with which they are going to transact. We explore personalisation as a factor in proximity. We view Proximity as a conceptual notion that has been developed from the physical view of the closeness of two objects.
Motivation

Typically, attracting new customers is more expensive for e-tailers than it is for traditional retailers (Reicher and Schefter 2000). Although some customers can be attracted by traditional advertising methods, most of the interaction with them happens via the use of technological solutions, therefore making the solution a determinant factor in engaging and finally keeping a customer. There is extensive research exploring the motivations in using and accepting technology as a tool to perform commercial transactions. For example, TAM (Davis, 1989) links the use of technology to the perceived easiness of using it as well as the perceived usefulness of the technology itself. In this research, rather than dealing with technology acceptance as a factor for e-business, we want to explore other aspects of the customer-vendor relationship itself. For example, a market controlled stimuli like branding (Turban et al 2006), that refers to customer loyalty to a particular brand or name, can have significant impact on the amount of transactions with a particular vendor. In bricks-and-mortar business, the effect of branding might make the customer drive the extra mile in order to find their particular choice. We suggest that customer loyalty is also motivated by proximity, which we have defined as how close or at ease a person feels to a vendor before committing to a transaction. The more familiar a customer finds him or herself to a vendor, the more likely they will actually complete a transaction (Pavlou 2002; Akhter et al 2005). We propose that the Proximity construct goes beyond familiarity. When moving to the online world, this degree of closeness is somewhat lost, and this becomes an area of opportunity for the e-commerce and m-commerce technologies. This new construct opens up the possibility of studying how technology can actually act as an enabler for proximity, and how is proximity dealt with in the online world. For example, Mexican cell phone company Telcel sends sms messages to their subscription customers every now and then, with special promotions and offers. These messages are written in a friendly fashion and increase the level of customer service, this is they type of interaction that is likely to increase the feeling of proximity toward the cell company. Given that mobile technologies are becoming commonplace, it is important to assess how they can be used to the advantage of e-tailers.

Literature Review

In this study we explore the dual roles of trust and proximity on a users’ behavioural intention with respect to online transactions. The study is informed by diverse fields of study such as psychology, virtual teamwork and distance learning.

Trust

Prior research has conceptualised trust in a variety of ways (Gefen et al. 2003) looked at 43 prior studies and concluded that the most widely used specific beliefs about trust were integrity, benevolence and ability of the other party. Later, (Komiak and Benbasat 2006) formally divided trust into emotional and cognitive trust. Following from this division familiarity was found to increase cognitive trust. In this study we assert that familiarity reduces social complexity and uncertainty, thus is likely to enhance trust. The assessment that a new transaction will be a success based on how customary the situation appears (situational normality) (Gefen et al. 2003) also leads to trust. Trust can also be shaped by an assessment of the costs and benefits to the other party of cheating or cooperating, this is known as calculative based trust (Gefen et al. 2003). Structural assurances such as policies or web seals are also likely to increase trust. A full discussion of these antecedents is given in Gefen et al (2003). This leads us to hypothesize:

H1 Familiarity with a trust worthy e-vendor will positively affect trust in that e-vendor
H2 Perceptions of situational normality will positively affect trust in an e-vendor
H3 Calculative based beliefs will positively affect trust in an e-vendor
H4 Perceptions of structural assurances will positively affect trust in an e-vendor

Finally, based on prior work (Gefen et al. 2003), trust allows the user to subjectively rule out undesirable behaviors by the vendor and hence heighten levels of intended use measured by behavioural intention (BI).

H5 Trust will positively affect BI

Proximity
Proximity is a construct distinct from trust and reflects the feeling of nearness (social, cultural, psychological or physical) that exists between parties in a transaction. It has its genesis in the gestalt principal of organisation holding that (other things being equal) objects or events that are near to one another (in space or time) are perceived as belonging together as a unit (Moore et al. 1992). Burgoon et al in particular studied the notion of space and distance as non-verbal communication systems ie humans communicate purely by being close (Burgoon et al. 2002b). They noted the importance of physical proximity in creating a sense of connection between people, promoting higher degrees of involvement, and in facilitating comprehension, information exchange and influence (Burgoon 2001). Further they opined physical closeness fosters psychological closeness and mutuality. Physical distance creates detachment, perceived dissimilarity, and lack of receptivity to another’s communication and viewpoints (Burgoon et al. 2002b). In this instance, proximity generated more mutuality, involvement, and favorable judgments of one another’s credibility and attractiveness (Burgoon et al. 2002a). Clearly, proximity conferred significant advantages in terms of the communication process itself and the social judgments emanating from it (Burgoon et al. 2002b). The implications of this in the current study is that humans are social animals, and the effects of proximity are likely to provide insight into the success or otherwise of ecommerce transactions.

Recent research has provided insights into this phenomenon from global virtual team management. Many researchers report the phenomenon that people work better in virtual teams if they have first met face to face (Jarvenpaa et al. 2004) (Curseu 2006; Fuller et al. 2006; Paul 2006) and also that trust increases over time (Jarvenpaa et al. 2004) which is consistent increasing proximity. One recent study has taken a cultural view of this phenomenon (Hardin et al. 2007), they focussed specifically on the difference between collectivist and individualistic cultures. This leads to a number of hypotheses about culture. These are further explained in the following section.

Recent work by (Shaw 2003) used the scale illustrated in Table 1 to measure organisational proximity. Organisational proximity was originally explained by (Bergami and Bagozzi 2000) as the degree of overlap between organisational identity and self definition. It is designed to measure emotional and psychological proximity rather than physical/spatial/cultural proximity; (Bergami and Bagozzi 2000) validated the measure shown in Table 1 for measuring cognitive organizational identification using two samples of managers. In the Shaw study it was used to measure how close a webmaster felt to their own company. It has been adapted for use in this study in assessing how close an individual feels to a local bricks and mortar, or overseas online company using the following question

Please think about your relationship with a well known online bookseller (e.g. amazon) in terms of the following series of overlapping circles. Imagine that one of the circles represents your identity or “who you are”, and the other represents the identity of the company. Please indicate which pair of circles best describes the level of overlap between you and the company’s identities by selecting the appropriate button at the left of each pair.
Cultural Dimensions

We extend the work in these studies by using the Global Leadership and Organizational Behavior Effectiveness GLOBE cultural dimensions. Each dimension was considered as to whether it would affect attitudes to proximity.

**Power Distance (PD):** A culture of high PD is characterized by a hierarchy of authority and control, centralization of knowledge and responsibility, excessive rule, and a more restricted exchange of knowledge (House et al. 2004). The reverse is true of lower PD cultures which are characterized by less hierarchy, fewer rules, greater decentralization of knowledge and free flow of information. We suggest that cultures with low PD emphasize a flatter hierarchy and greater equality in relationships. Thus, those with low PD would be more inclined to value face to face contact.

H5-1 PD scores will be positively associated with proximity scores.

**Uncertainty Avoidance (UA):** UA is the extent to which a society relies on social norms and procedures to alleviate the unpredictability of future events. In high UA cultures, people would be less likely to transact online because they would aim to reduce uncertainty by being cautious and careful about the information they divulged through the internet so that they would be more certain as to what was done with any information provided. On the other hand, people scoring low on UA are less interested in reducing uncertainty and would not be concerned about how information they provide is used. The ability to reduce uncertainty with a computer system is highly valued for high UA individuals (Hofstede 2001). Therefore, the relationship between UA and proximity exists, thus:

H5-2 High uncertainty avoidance will be associated high proximity scores.

**Institutional Collectivism (IC):** High values of IC encourage and reward collective distribution of resources and collective action. In such cultures cooperation is seen as more important than the individuals needs (Wagner 1995). In such an environment people are more likely to value proximity as found in (Hardin et al. 2007).

H5-3 IC will be positively associated with values of proximity.
**Humane Orientation (HO):** HO targets the individual’s focus on others’ wellbeing, and people rather than task oriented approach. Paternalistic and patronage relationships are valued, and individuals value harmony (Dhillon et al. 2001). It follows that individuals exhibiting high levels of HO would value proximity.

H5-4 HO will be positively associated with high proximity scores

**Performance Orientation (PO):** In cultures with the highest reported PO scores, training and development is highly valued. People believe in taking initiative and emphasize performance. It is likely that these people will be less concerned about proximity and would prefer to transact more efficiently online.

H5-5 PO will be negatively associated with proximity

**Future Orientation (FO):** Kluckhohn and Strodtebeck (1961) first identified this phenomenon that represents a culture's focus on the past, present or future. A past-oriented culture might evaluate plans in terms of customs, traditions, or history, while a future-oriented culture would evaluate plans in terms of future benefits, and would look to the internet as an enabling technology

H5-6 FO will be negatively associated with values of proximity

**Gender Egalitarianism (GE):** In societies where there the differences in gender are high, gender inequality will be apparent. Men tend to focus on hierarchy and independence, while women focus on intimacy and solidarity, thus in societies with a focus on gender egalitarianism the benefits of forming a bond with a vendor would be more apparent

H5-7 High GE will be associated with high proximity

**Theory Development**

Following from the review presented on the previous section, we propose the research model depicted in Figure 1.

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**Figure 1** Research Model.
As stated before, we consider the effects that trust in a vendor and proximity with a vendor have on behavioral intention with respect to engaging in online transactions with such vendor. We state together the hypotheses for reader’s convenience:

H1 Familiarity with a trust worthy e-vendor will positively affect trust in that e-vendor
H2 Perceptions of situational normality will positively affect trust in an e-vendor
H3 Calculative based beliefs will positively affect trust in an e-vendor
H4 Perceptions of structural assurances will positively affect trust in an e-vendor
H5 Trust will positively affect BI

These hypotheses are based on previous work by Cockcroft and Heales (2005), with antecedents found in Gefen et al (2003).

The effects of Cultural Dimensions on Proximity are described in the previous section, with the hypotheses stated as follows:

H5-1 PD scores will be positively associated with proximity scores.
H5-2 High uncertainty avoidance will be associated high proximity scores
H5-3 IC will be positively associated with values of proximity
H5-4 HO will be positively associated with high proximity scores
H5-5 PO will be negatively associated with proximity
H5-6 FO will be negatively associated with values of proximity
H5-7 High GE will be associated with high proximity

Our reasoning for the demographics effect on proximity is as follows: More mature people tend to form habits, which include certain loyalty to retailers they do business frequently. By the same token, there are distinct gender differences in shopping habits particularly around the need to feel close to the store (women) vs the need to win (get a deal, beat the price down etc (men) (Bakewell and Mitchell 2006). Therefore, our hypotheses for Demographics are as follows:

H6-1 Greater age will be positively associated with proximity scores
H6-2 Female customers will be positively associated with proximity scores

Personalization is one of the controlled stimuli that vendors have as a tool for attracting clients. When used effectively within a web site metaphor, personalization amounts for the lack of face-to-face interaction which we suggest has an overlap with proximity. Thus, we believe the more personalization in a site, the better the proximity feeling is towards the customer:

H7 Personalization will be positively associated with proximity scores

Finally, as stated in our motivations, we hypothesise that Proximity is a factor that influences the behavioral intention of a person towards doing business with a site. We also think that proximity improves trust in doing business with a vendor, thus:

H8 Proximity will be positively associated to BI
H8M Proximity will positively influence the effect of Trust on BI

Research Method

The work presented here was a small pilot study with 40 students of accounting and information systems courses. The questionnaire was administered at the start of tutorials in the second week of term. From the pilot study a more concise web questionnaire has been developed which will form the basis for a larger study. The research model includes two latent variables proximity and trust. In the follow up study the data will be analysed using SEM to explore the nature of these. In the current study the numbers are too small to rely on this type of analysis.
Conduct of the Research

Data relating to hypothesised constructs was collected using a modified version of the Malhotra et al (2004) model and survey. Malhotra’s original model concerned privacy in e-commerce. We considered the model and survey method appropriate according to the research design recommendations of (Yin 1993). The survey data reported here forms the basis for a pilot study. Constructs not documented in the literature were subject to an initial analysis, and tested by two qualified researchers. Modifications were made and the final questionnaire drawn up. Data were collected using a survey instrument and reviewed for normality and multivariate outliers, and no significant departures were found.

There were 33 usable surveys collected from graduate and undergraduate students at a large State university. The survey subjects varied in age from 16 to 55 and the gender balance was 58% female and 42% male. There were 43 items in the survey. Respondents were asked a series of demographic questions, including some based on culture related variables. They were then presented with two scenarios one of which involved buying a book and the second buying a mobile phone.

Because proximity is a new variable, we detail the items used to former construct. Five items were used to measure Proximity, a) “I would prefer to buy from an online store when that store tries hard to bond with me”, b) “I would prefer to buy from an online store when that store seems friendly,” and c) “I would prefer to buy from an online store when that store espouses similar ideals to me,” d) “I would feel happier buying from the local bookstore” and e) “I would feel happier buying from the local phone shop.” The measures for d) and e) were reversed. The measures loaded well and contributed to an AVE of 0.668 with a composite reliability of 0.858.

Personalisation is also a new variable, and the construct is formed from five items, a) “I would prefer to buy from an online store when that store remembers previous visits,” b) “I would prefer to buy from an online store when that store uses more personalised communication such as using my name,” c) “I would prefer to buy from an online store when that store sends me solicitations by email,” d) “I would prefer to buy from an online store when that store sends me solicitations by SMS,” and e) “I would respond positively to an online vendor that offers suggestions for other products that would complement purchases I have already made.” The measures loaded well except for PERS3 which was dropped from the analysis, giving an AVE of 0.409 with a composite reliability of 0.703.

Other measures are given in the structural equation model, Figure 2, which details AVE and composite reliability for all latent variables. The Proximity measure developed by Shaw (2003) was not used in this round of data collection, but will be included in the next phase of the instrument development.

Analysis of the findings

The data was analysed using structural equation modelling (SEM), specifically PLS. Some individual relationships, particularly those relating to the new construct of Proximity were tested separately using PLS analysis. t-values quoted from the SEM relate to one tailed tests.

We analyse the model in two stages, first looking at Proximity and the contribution of the latent variables leading to Proximity, see Figure 2. Age and Personalisation made significant positive contributions to Proximity, p<0.01. The cultural variables were grouped into two latent variables, Culture1 was formed from Humane Orientation, Family Collectivism, and Institutional Collectivism. Culture1 made a significant positive contribution to Proximity, p<0.01. Culture2 was formed from Future Orientation and Performance Orientation, and also made a significant positive contribution to Proximity, p<0.01. Other cultural variables were not significant.

Of the demographic variables, Age had a significant loading onto Proximity at 0.189, p<0.01. Gender was not significant.
The full model shows the hypothesised relationships for Trust and Proximity as a full structural model with standardised loadings, see Figures 3 and 4. Figure 4 shows Proximity as a moderating variable between Trust and Behavioural Intention.

The measure for Trust was derived from two main sources. TRUST1, TRUST2, and TRUST3 were derived from general questions relating to online stores. TRUST4, TRUST5, TRUST6, and TRUST7 related to trust-based questions about scenario concerning the purchase of a book. TRUST8, TRUST9, TRUST10, and TRUST11 related to trust-based questions about scenario concerning the purchase of a mobile phone. Trust scores concerning the purchase of a book were expected to be higher than those for the purchase of a mobile phone so the direction of relationships concerning the scenarios will be in the opposite direction. This is confirmed by the negative loading of Trust_A on Trust with positive loadings from the scenarios.

The antecedents to Trust, Familiarity, Situation Normality, Calculated Based Beliefs, and Perceptions of Structural Assurances contributed loadings to Trust of -0.093, 0.442, 0.131, and 0.124. Only Situation Normality proved significant at the p<0.01 level, and Calculative Beliefs at the p<0.10 level. These results lend strong support to H2 and mild support to H3. H1 and H4 were not supported.

The effect of Trust on Behavioural Intention is strong, with the loading of -0.443, p<0.01, supporting H5. Similarly, the effect of Proximity on Behavioural Intention is strongly supported with the loading of 0.305, p<0.01. We tested the moderating effect that Proximity has on the relationship between Trust and Behavioural Intention and found a strong relationship with the loading of 0.853, p<0.01. In the presence of this moderating effect we found that the direct effect of Proximity on Behavioural Intention was significantly reduced to 0.128 (see Figure 4).
Figure 3. Full Structural Model of Hypothesised relationships, showing loadings.
Figure 4. Full Structural Model of Hypothesised relationships, showing loadings.
Implications drawn from the analysis

The implications of this study have both theoretical and practical ramifications. From a theory perspective, we contribute to the body of knowledge dealing with cross cultural effects and demonstrate the humane orientation together with institutional and family collectivism contribute positively to Proximity. Similarly we also show that future orientation and performance orientation scores contribute to Proximity scores.

We successfully introduce two new constructs into the literature dealing with Behavioural Intention. We demonstrate the positive effects that personally directed solicitation has on Proximity, and the positive effects that Proximity has on Behavioural Intention. We also demonstrate that Proximity moderates the effects of Trust on Behavioural Intention.

We further confirm the positive relationship between Trust and Behavioural Intention found in the literature.

The practical implications of work extend to improving customers behavioural intention by increasing the perceived proximity of the organisation to the user. This can be achieved in part by using personalisation techniques.

Conclusions and Limitations

The work reported in this study is based on a solid theoretical foundation derived from the literature. We have borrowed some theoretical concepts from allied disciplines and brought them together to form a model of Behavioural Intention that is influenced by Trust and Proximity.

The major limitation of this reported work rests with the sample size of 33. We plan to improve the management of Proximity by incorporating the work of Shaw (2003). Further work is necessary to better explain the variability of Behavioural Intention. Should this paper be accepted for publication at the AMCIS 2007 conference will report the findings of this additional work.

References:


Yin, R. *Applications of Case Study Research* Sage Publications, California, 1993
SECTION 2 - DEMOGRAPHIC QUESTIONS:

Questions about your personal background

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<td>How old are you?</td>
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<td>2.</td>
<td>What is your gender? (check one)</td>
<td>Male ________ Female ________</td>
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<td>3.</td>
<td>What is your country of citizenship / passport?</td>
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<td>4.</td>
<td>What country were you born in?</td>
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<td>5.</td>
<td>How long have you lived in the country where you currently live?</td>
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<td>6.</td>
<td>What is your ethnic background?</td>
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SECTION 3 - YOUR BELIEFS ABOUT ONLINE BUSINESS

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<td>7.</td>
<td>I would prefer to buy from an online store when that store tries hard to bond with me</td>
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<td>8.</td>
<td>I would prefer to buy from an online store when that store seems friendly</td>
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<td>9.</td>
<td>I would prefer to buy from an online store when that store espouses similar ideals to me</td>
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<td>10.</td>
<td>I would prefer to buy from an online store when that store is well known</td>
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<td>11.</td>
<td>I would prefer to buy from an online store when that store has good brands</td>
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<td>12.</td>
<td>I would prefer to buy from an online store when that store remembers previous visits</td>
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<td>13.</td>
<td>I would prefer to buy from an online store when that store uses more personalised communication such as using my name</td>
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<td>14.</td>
<td>I would prefer to buy from an online store when that store sends me solicitations by email</td>
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<td>15.</td>
<td>I would prefer to buy from an online store when that store sends me solicitations by SMS</td>
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<td>16.</td>
<td>I would respond positively to an online vendor that offers suggestions for other products that would complement purchases I have already made</td>
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<td>17.</td>
<td>I would NOT buy from the vendor if something about the situation did not seem right</td>
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<td>18.</td>
<td>I would not buy from a vendor if the means of conducting business was not normal</td>
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<td>19.</td>
<td>It would not be worth the online company's while to rip me off</td>
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<td>20.</td>
<td>unknown online companies pose a greater risk of losing my money</td>
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<td>21.</td>
<td>Transacting with online firms leads to too many unexpected problems</td>
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<td>22.</td>
<td>I would prefer to buy from an online store when that store has a Verisign (or similar) certificate (i.e., a credible third party stating that the company operates to high standards)</td>
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<td>23.</td>
<td>I would trust the online company more than the local one if the online company was well known (e.g., Amazon.com)</td>
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<td>24.</td>
<td>Online companies are in general predictable and consistent when considering online sales</td>
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<tr>
<td>25.</td>
<td>Online companies are always honest with customers when it comes to conducting online sales.</td>
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### Scenario A
You have decided to purchase a book to help you with a hobby you have. There are two suppliers, one from the local bookstore, and the other from a foreign online bookstore. The local bookstore can order the book in to arrive in 10 days time. The online bookstore guarantees delivery in 10 days time. The price is the same ($100.00 including delivery and freight). All other things being equal,

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<th>Question</th>
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<td>26. I would feel happier buying from the local bookstore</td>
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<td>27. Bonding activities from the online store would be more effective than from the local bookstore (e.g., other customers who bought your book choice also bought…)</td>
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<td>28. More friendly and personable activities/approaches from the online store would be more effective than from the local bookstore (e.g., Dear Yourname, welcome to…)</td>
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<td>29. I would feel happier buying online than locally if the store espouses similar ideals to me</td>
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<td>30. All other things being equal, how much discount would you require to make your buy from the online vendor (%)?</td>
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<td>31. I would prefer buying from the online bookstore if it was well known (e.g., Amazon.com Vs. the local Angus and Robertson)</td>
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<td>32. I prefer to buy online than locally if the online company has good brands/extensive collection</td>
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<tr>
<td>33. I would NOT buy my book from the online company if something about the situation did not seem right</td>
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<td>34. I would NOT buy my book online if the means of conducting business was not normal</td>
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### Scenario B
You have decided to purchase a mobile phone. There are two suppliers, one from the local shopping centre, and the other from a foreign online phone shop. The local shop can order the phone in to arrive in 5 days time. The online shop guarantees delivery in 5 days time. The price is the same ($100.00 including delivery and freight). All other things being equal,

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<th>Question</th>
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<tr>
<td>35. I would feel happier buying from the local phone shop</td>
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<td>36. Bonding activities from the online store would be more effective than from the local phone shop (e.g., other customers who bought your phone choice also bought…)</td>
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<td>37. More friendly and personable activities/approaches from the online store would be more effective than from the local phone shop (e.g., Dear Yourname, welcome to…)</td>
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<td>38. I would feel happier buying my phone online than locally if the store espouses similar ideals to me</td>
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<td>39. All other things being equal, how much discount would you require to make your buy from the online store (%)?</td>
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<td>40. I would prefer buying from the online phone shop if it was well known (e.g., Nokia.com Vs. the local Telstra shopping centre store)</td>
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<td>41. I prefer to buy my phone online than locally if the online store has good brands/extensive collection</td>
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<td>42. I would NOT buy my phone from the online store if something about the situation did not seem right</td>
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<td>43. I would not buy my phone from an online store if the means of conducting business was not normal</td>
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