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# FACTORS THAT IMPACT CUSTOMERS' LOYALTY TO SOCIAL COMMERCE WEBSITES

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## ***Abstract***

Social commerce (s-commerce) has become rapidly appeared as relatively new area of investigation for both researchers and practitioners. However, there has been little research in the area of customer loyalty to s-commerce websites. The aim of this study is to develop a framework to identify factors affecting customers' loyalty to s-commerce websites. A web-based survey was used to collect data which were analysed using the partial least squares based on structural equation modelling (PLS-SEM). This study found that satisfaction; trust and social presence have significant influence on loyalty to s-commerce website and found that reputation, satisfaction, word-of-mouth, and social presence positively contribute to explaining the variance in trust. In contrast, communication and online shopping experience didn't contribute to explain the variance in trust. The findings of this study contribute to the development of businesses strategies of how to retain their customers which will result in higher profits.

## ***Keywords***

Social Commerce, Social Presence, Trust, Customer Loyalty, Australia.

## **1. Introduction**

Social commerce (s-commerce) has recently begun to dominate the Electronic Commerce (eCommerce) industry (Liang and Turban, 2011). Social media, also known as a new media, now accounts for the majority of traffic on eCommerce platforms (Hennig-Thurau et al., 2010;Hajli, 2012a). Social media networks have been essential in popularizing s-commerce platforms, of which eCommerce firms have quickly recognized as necessities for their business needs.

Many factors that can be considered as factors that impact s-commerce websites, however, customer loyalty is one of the most important factors that influence s-commerce websites. Customer loyalty is important for the success of both traditional businesses (brick-and-mortar) and online businesses in today's global markets. However, many researchers consider customer loyalty to be more important for online businesses because customers in online environments are more likely to become navigationally lost than in traditional environments (e.g., with just one click, a customer might accidentally end up at a different e-store's site) (Mäntymäki, 2009). The retention of online shoppers is not easy, as customers commonly move quickly from one page to another and from one site to another (Eid and Al-Anazi, 2008). Reichheld and Schefter (2000) have discovered that it is possible for profit to be increased in firms by 25% to 95% by increasing customer retention by 5%. In competitive markets such as eCommerce markets, this means that customer loyalty is integral to build competitive advantage and achieve greater profits (Sebastian, 2010). While customer loyalty

has been discussed widely in eCommerce (Afsar et al., 2013; Yoo et al., 2013) and other research contexts, the issue of customer loyalty in the context of s-commerce currently represents a gap in the literature.

There are two distinguished approaches for s-commerce. First approach, those social networking sites that enhanced with commercial features in order to help people to purchase while they are socializing. For example, Facebook and Twitter. Second approach, those traditional e-commerce websites that enhanced with social features (recommendations, comments, rankings) in order to help people to socialize while they are purchasing. For example, Amazon and eBay. This paper is following the second approach as the majority of the business transactions around the world are of this type (Alhulail et al., 2015).

Social aspects are what differentiate s-commerce website from other commercial websites. However, little research has been done to investigate the influence of social presence (SP) on customer loyalty (Lu and Fan, 2014).

Therefore, the objective of this study is to develop a framework to identify the factors affecting customers' loyalty to s-commerce websites. The rest of the paper is organized as follows. The related literature is reviewed. The theoretical background is given in section 3. After that, hypothesis development is presented, leading to research methodology in section 5. Then in section 6 Data analysis is given. Finally, the conclusion, the limitations of the study and future research are given.

## **2. Literature Review**

The term Social Commerce (S-Commerce) is generated from the definitions of s-commerce and networking and referred to the execution of eCommerce activities and dealings by means of social media. Consequently, S-commerce considered as a subsection of eCommerce that increases using social media to support consumers in their commerce dealings and activities. Literature shows that s-commerce is a type of eCommerce intervened by social medium concerning convergence among the offline and online environments (Wang and Zhang, 2012).

For many firms, customer loyalty is one of the most important business concerns (Reinhold, 1996) and is often used as an indicator of business performance (Morgan and Rego, 2006). The difference between traditional customer loyalty and e-loyalty is that the former represents a customer's attitudinal preference toward a particular product or service, whereas the latter refers to a customer's attitude or behaviour toward revisiting a particular website (Anderson and Srinivasan, 2003). Cyr et al. (2008) define e-loyalty as the perceived intention to visit a website and purchase and repurchase from it in the future. Currás-Pérez et al. (2013) define customer loyalty to a social networking site as "a favourable attitude towards that social networking site expressed by the intention to continue using it in the future and recommend that other users use it." In line with this definition, we define customer loyalty toward s-commerce websites as a favourable attitude toward a particular s-commerce site expressed by the intention to continue using it. Here, usage includes the following: browsing the site, purchasing from the site, creating content, sharing a purchase with other friends on a particular social networking site, and recommending the site to other users through integrated social features, such as comments, recommendations, and rankings. Usage is more complex in s-commerce than in eCommerce (Alhulail et al., 2015). On a traditional eCommerce website, there are only two possible actions: browsing and purchasing. On an s-commerce website, however, there are an additional three possible actions: creating content, sharing, and recommendations.

Moreover, Markey and Hopton (2000) found trust, not price, to be the most important factor leading to customer loyalty toward a given online retailer. Therefore, trust should not be ignored in any examination of customer loyalty. Trust in context of s-commerce is a central aspect in many economic transactions that can involve social uncertainty and risk (Dennison et al., 2009). It is regularly considered the basis of s-commerce and ecommerce and the most vital influence for the success of s-commerce as well as for the success of ecommerce.

In addition, a customer satisfaction is one of the important factors that are important in studying s-commerce websites. Customer satisfaction refers to a feeling of either gratification or frustration produced from perceived expectations of a specific s-commerce product/service and its perceived performance (Churchill Jr and Surprenant, 1982; Parker and Mathews, 2001; Lin, 2003). Customer satisfaction and loyalty are of vital importance for online buying intention or selling behaviour (Yousuf and Wahab, 2017).

One of the most important factors for online customer loyalty is the Social Presence (SP). SP can be defined as the extent to which a medium allows a user to experience the presence of other human beings (Fulk et al., 1987). SP theory (Short et al., 1976) focuses on how the use of a given medium is influenced by its social context. SP can be evaluated in terms of a given media's ability to transmit information, messages, and cues, such as non-verbal cues (Short et al., 1976). SP has been widely used as a measure of the capacity of computer-mediated environments to transmit social and personal messages (Short et al., 1976). While researchers have studied SP in the context of eCommerce, little research has been committed to the s-commerce context. Lu and Fan (2014) argue that the multidimensional nature of SP should be taken into consideration when studying SP because people in virtual communities do not deal only with the computer medium; however, they interact with other people in such a medium. They propose three dimensions of SP in the s-commerce context: the SP of a website (i.e., websites that are rich in information and have social cues, such as images, audio, and videos), the perception of other users on the web (i.e., websites that allow for the social cues of users, such as recommendations, reviews, and rankings), and the SP of customers interactions with sellers. This study is focusing on customer loyalty from a buyer perspective, examining the impact of SP on customer loyalty in the s-commerce context from two perspectives: the SP of a website and the perception of other users on the web. The SP of a website has been actually investigated in some extent however SP of other users has been very minimally investigated, that why we think it is important to include this aspect in s-commerce research. In this study, SP has been considered as a second-order construct that consists of two dimensions: SP of a Website and SP of Other Users.

Some factors have been considered as important factors when studying eCommerce and has been included in this study as factors that impact s-commerce. The literature indicated that there are three website qualities that are vital to any s-commerce business; service quality, system quality, and information quality (Liu et al., 2011; Liang et al., 2011; Jaiswal et al., 2010). Moreover, if s-commerce business wishes to succeed, they need to maintain their reputation. Park et al. (2012) state that online firms should maintain a good reputation with their customers if they wish to hold their trust. Corbitt et al. (2003) claim that positive shopping experiences may encourage customers to overcome difficulties and barriers they may face when shopping online. Therefore, online shopping experience has been included in this study as well. Moreover, WOM is an important factor when studying s-commerce. Park et al. (1998) indicate that customers are more likely to buy a product based on WOM than listening to or watching an advertisement. Finally, communication is another factor and it refers to the creation and sharing of information between customers through formal and

informal processes in order to reach a consensus on a decision (Moon and Lee, 2008). This is typically done through exchanges of information through social features of s-commerce websites, such as reviews, recommendations, and ratings.

### 3. Theoretical Background

This study draws on SP and trust theories as well as the updated IS success model of (for the Delone and McLean (2003)). The trust theory concerns the computational and behavioral trust that exists between people, organizations, computers, and networks (Liang and Turban, 2011). Trust has also been considered one of the most important factors in s-commerce. Customer acceptance of s-commerce is determined by trust, ease of use, and social comparisons between sites (Shen, 2012).

SP theory (Short et al., 1976) focuses on how the use of a given medium is influenced by its social context. Short et al. (1976) indicate that SP theory considers SP as a quality that is inherent to any communications medium. SP is one of the most important factors that differentiates s-commerce sites from others commercial sites.

On the other hand, information quality, system quality, and service quality are conditions for success in IS. These constructs can increase user usage and satisfaction, which in turn is expected to increase net benefits. Delone and McLean (2003) argue that their success model can be effectively applied to measure success in eCommerce and s-commerce.

Constructs have been selected for this study's examination: service quality, systems quality, information quality, reputation, online shopping experience, WOM, and communication as they relate to customer satisfaction, trust, SP, and customer loyalty in s-commerce. The research model is depicted in Figure 1.

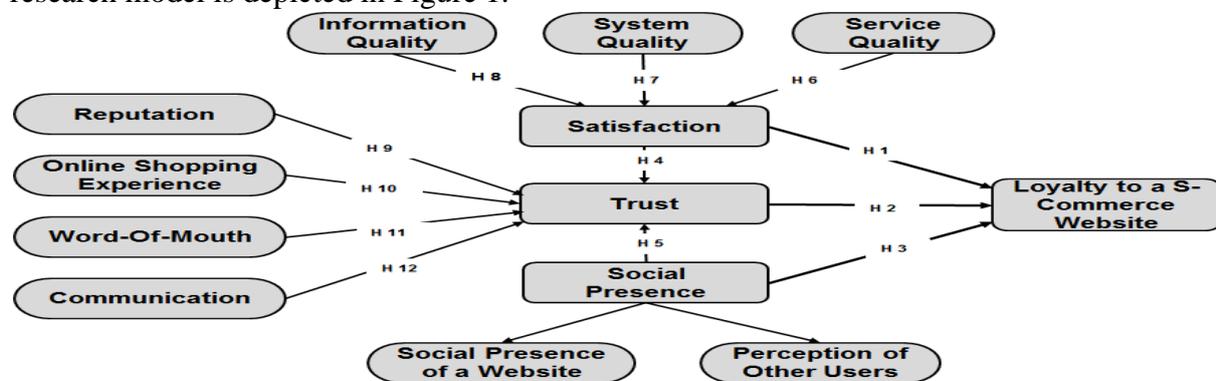


Fig 1: Research Model

### 4. Hypothesis Development

It has been suggested that there is a strong relationship between satisfaction and loyalty (Harris and Goode, 2004). Researchers have also investigated the relationship between satisfaction and loyalty in the B2C eCommerce context and found satisfaction to have a positive impact on loyalty (Akbar and Parvez, 2009;Pai and Tsai, 2011). Therefore, the following hypothesis is proposed:

Hypothesis 1. Customer's level of satisfaction positively influences customer loyalty to an s-commerce website.

Several previous studies have examined the impact that trust has on eCommerce. For example, trust has been considered to be a critical antecedent for user engagement (Gefen,

2000). Anderson and Srinivasan (2003) have stated that if an online shopper's trust in a website is lost, then it is likely that he or she will not return to the website even if favouring certain aspects of the website over those of other sites. Therefore, trust should not be ignored in any examination of customer loyalty. Hence, the following hypothesis is proposed:

*Hypothesis 2. Customer's level of trust positively influences customer loyalty to an s-commerce website.*

While researchers have studied SP in the context of eCommerce, little research has been committed to the s-commerce context. SP of a website has been actually investigated in some extent however SP of other users has been very minimally investigated, that why we think it is important to include this aspect in our model. Cyr et al. (2007) found the SP of websites to have a direct impact on e-loyalty to a B2C e-service website. On the other hand, Lu and Fan (2014) indicate that people can influence and be influenced by other known and trusted people's knowledge and experiences, Therefore, it most likely that SP with its two dimensions will impact customer loyalty positively. Hence, the following hypothesis is proposed:

*Hypothesis 3. Level of SP positively influences customer loyalty to an s-commerce website.*

Although customer satisfaction is very important for online businesses success, it should be followed by trust in order to ensure the customer loyalty increase (Liang and Chen, 2009a). Therefore, it is likely that satisfaction will have a similar impact in the s-commerce context. Hence, the following hypotheses are proposed:

*Hypothesis 4. Customer level of satisfaction positively influences customer trust with an s-commerce website.*

The high perception of SP on an apparel website was found to positively impact customer trust (Hassanein and Head, 2006). Godes et al. (2005) suggest that social interaction with other users can affect the beliefs, attitudes, and behaviours of consumers. Hence, the following hypothesis is proposed:

*Hypothesis 5. Level of SP positively influences customer trust in an s-commerce website.*

Service quality, System quality and information quality have been considered to be very important for customer satisfaction and trust (Liu et al., 2011). Service quality has been considered to be very important in the eCommerce context (Pather et al., 2004). In addition, a study indicated that system quality is important factor for user satisfaction and system-use (Ou et al., 2011). Lastly, Jaiswal et al. (2010) have indicated information quality to play an important role in influencing customer satisfaction in eCommerce. Hence, it has been hypothesized that service quality, system quality, and information quality, H6, H7 and H8 respectively, positively influences customer satisfaction with an s-commerce website.

Reputation, online shopping experience, WOM and communication are very important factors that influence trust. Evidence suggests that customer trust is generated by the perception of a good reputation, WOM and communication (Kim and Park, 2013; Doney and Cannon, 1997). In addition, Hajli (2012a) argues that customers who have had positive shopping experiences typically consider online shopping to be easier, which in turn affects their levels of trust in the future. Therefore, It is likely that customers' reputation, online

shopping experience, WOM and communication will affect their levels of trust in the s-commerce context. Hence, it has been hypothesized that reputation, online shopping experience, WOM and communication, H9, H10, H11 and H12 respectively, positively influences trust in s-commerce website.

## **5. Research Methodology**

In this study, Partial Least Squares (PLS-SEM) structural equation modelling technique was used applying SmartPLS 3 software (Lowry and Gaskin, 2014;Ringle et al., 2010). Web-based survey was used to facilitate the objective of this study. The population of the study consists of male and female customers (who live in Australia) of 15 s-commerce websites (Kogan, eBay, Amazon, Target, Booking.com, Big W, Harvey Norman, Dick Smith, Etsy, OO, Booktopia, Shopping.com Network, Deals Direct, Gumtree, and harris scarfe). Survey questions were based on seven likert scale from 1 to 7 that was represented by 1= strongly disagree to 7= strongly agree to express the degree level of agreement. Initially, items for the 12 defined constructs were developed based on prior studies as shown in Table 1. In order to improve the validity of the instrument and the initial pool of items, a Panel of Experts (POE) (24 academics) and pilot study (26 s-commerce customers) survey were conducted (Lewis et al., 2005). Based on the feedback, some items have been deleted, added, or modified.

In order to reach the required number of s-commerce users, a professional market research company was used. The sample specification was as follows: anyone from the Australian population who used s-commerce websites to purchase (a) product(s)/service(s). The participants were selected randomly from those over 18 years of age. Online questionnaire was used to collect data. 997 Surveys was collected. After that data preparation process, 797 surveys were ready to be analysed.

In this study, to obtain the demographic data, there are total 10 descriptive variables namely: “gender”, “age”, “education”, “occupation”, “location”, “income”, “which s-commerce website do you use the most?”, “online shopping experience”, “how often do you visit this s-commerce website?” and “how often do you purchase items from this s-commerce website?” There were total (44%) male participants and (56%) female participants. In terms of occupation, (22.9%) participants were from the eCommerce and s-commerce background followed by the office worker (15.5%) and Self-Employed (8.0%). Moreover, (24.2%) participants have undergraduate degree, followed by the Postgraduate degree (24.2%), Diploma (22.9%) and Completed high school (22.2%). The use of s-commerce is more popular among people age 55 and over than others (39.9%). Most of the participants (30.8%) were from New South Wales and only 1.1% participants were from Northern Territory. EBay is the dominant with 49% then Gumtree and Amazon with 12% and 10% respectively.

## **6. Data Analysis and Research Findings**

Partial Least Squares (PLS) structural equation modelling (PLS-SEM) technique was used applying SmartPLS 3 software to test the proposed relationships in the research model as in Figure 1 (Lowry and Gaskin, 2014;Ringle et al., 2010). Hair Jr et al. (2013) indicated that PLS-SEM aims to combining factor analysis with near regressions under the condition of minimal assumptions in order to get the high variance explanation (high R squared). In this study, there are 12 first-order constructs (customer loyalty, customer satisfaction, trust, service quality, system quality, information quality, reputation, online shopping experience, Word-Of-Mouth, Communication, SPW, and SPO) and one second-order construct (SP). Two-step approach was used in this study, measurement model and structural model (Hair Jr et al., 2013). Measurement model assessed by evaluating the indicator reliability, internal

consistency, convergent validity, and discriminant validity. The structural model assessed by evaluating the path coefficients, the coefficient of determination (R<sup>2</sup>), and the effect size (f<sup>2</sup>).

### 6.1 Assessment of Measurement model

The measurement model assessed by evaluating the indicator reliability, internal consistency, convergent validity, and discriminant validity. First, indicator reliability was represented by level of items loadings (Hair et al. (2013). Table 1 shows that the range of the item loading was between 0.70 and 0.86 which is above the cut-off value 0.70. Therefore, the result shows that the study items are reliable.

Constructs	Range of Factor loading within constructs	Cronbach's Alpha	Composite Reliability	AVE	Item's Source
Customer Loyalty	0.71 – 0.85 (5 Items)	0.84	0.88	0.60	Liang et al. (2011); Chao-Min et al. (2007); ; Rafiq et al. (2013); ; ; Kim and Park (2013);
Information Quality	0.78 – 0.84 (4 Items)	0.83	0.89	0.66	Teo et al. (2008); Schaupp et al. (2009)
Online Shopping Experience	0.74 – 0.85 (6 Items)	0.88	0.91	0.62	Corbitt et al. (2003); Hajli (2012a); Yoon et al. (2013)
Reputation	0.85 – 0.86 (3 Items)	0.82	0.89	0.73	Kim et al. (2008); (Kim and Park, 2013); (Kim et al., 2008); Doney and Cannon (1997),
Satisfaction	0.80 – 0.86 (4 Items)	0.85	0.90	0.69	Flavián et al. (2006); ; ; (Severt, 2002); (Janda et al., 2002); Pai and Tsai (2011); Liang and Chen (2009b)
Service Quality	0.83 – 0.86 (4 Items)	0.86	0.91	0.71	Chen and Cheng (2009); Teo et al. (2008); ; Zhou et al. (2010)
Social Presence Others	0.73 – 0.81 (4 Items)	0.77	0.85	0.59	Lu and Fan (2014); Caspi and Blau (2008)
Social Presence Websites	0.70 – 0.83 (3 Items)	0.67	0.82	0.60	Gefen and Straub (2003); Cyr et al. (2007); Kumar and Benbasat (2006)
System Quality	0.76 – 0.82 (5 Items)	0.85	0.90	0.63	Zhou et al. (2010); Lin (2008b), Chao-Min et al. (2007)
Trust	0.78 – 0.86 (4 Items)	0.84	0.89	0.68	Hassanein and Head (2007); ; Gefen and Straub (2003); Rafiq et al. (2013); Hajli (2012)
Word-Of-Mouth	0.75 – 0.82 (4 Items)	0.79	0.86	0.60	Kim and Park (2013); Edward (2012)
Communication	0.73 – 0.79 (4 Items)	0.75	0.84	0.57	Kim & Park 2013)

Table 1: Reliability and Validity of The Measurement Model

Second, in order to measure the internal consistency, Hair et al. (2011) emphasized to use the composite reliability (CR) as it compared to composite reliability, Cronbach's alpha shows poor estimation for reliability (Hair et al., 2012a). This study uses composite reliability to check internal consistency reliability. As shown in Table 1, the composite reliability achieves the cut-off value of 0.7 and lies between 0.82 and 0.91. Thus, the composite reliability shows good estimation. Moreover, to identify the convergent validity, average variance extract (AVE) is used (Fornell and Larcker (1981). In this study, all factors satisfy the cut-off value of 0.5. Table 1 shows that AVE of all constructs are within the range of 0.57 to 0.73.

In terms of discriminant validity, when the items of a construct are not correlated with the items of another construct, it is called as discriminant validity (Chin, 2010). This discriminant validity is depicted in a correlation matrix exhibited in Table 2. It shows that the square root of AVE is higher than the correlations of inter-constructs. Therefore, we can say that the

requirements of the discriminant validity are achieved. Evaluating the above analysis, we can say that this study confirms the reliability and validity of the items and its concerned factors.

	Communication	Information Quality	Customer Loyalty	Online Shopping Experience	Reputation	SPO	SPW	Satisfaction	Service Quality	System Quality	Trust	Word-Of-Mouth
Communication	0.757											
Information Quality	0.352	0.815										
Customer Loyalty	0.657	0.324	0.779									
Online Shopping Experience	0.438	0.226	0.531	0.789								
Reputation	0.694	0.340	0.706	0.400	0.855							
SPO	0.462	0.197	0.485	0.343	0.407	0.771						
SPW	0.447	0.187	0.375	0.233	0.345	0.576	0.776					
Satisfaction	0.615	0.306	0.753	0.555	0.658	0.325	0.282	0.829				
Service Quality	0.315	0.664	0.288	0.201	0.299	0.254	0.248	0.281	0.843			
System Quality	0.306	0.746	0.297	0.194	0.301	0.188	0.208	0.286	0.768	0.796		
Trust	0.284	0.644	0.311	0.207	0.302	0.264	0.221	0.284	0.739	0.654	0.823	
Word-Of-Mouth	0.303	0.654	0.283	0.198	0.252	0.245	0.247	0.209	0.532	0.636	0.474	0.773

Table 2: Convergent Validity and Discriminant Validity of Constructs

Notes:

Highlighted values in diagonal are square root of AVE and correlation are off-diagonal.

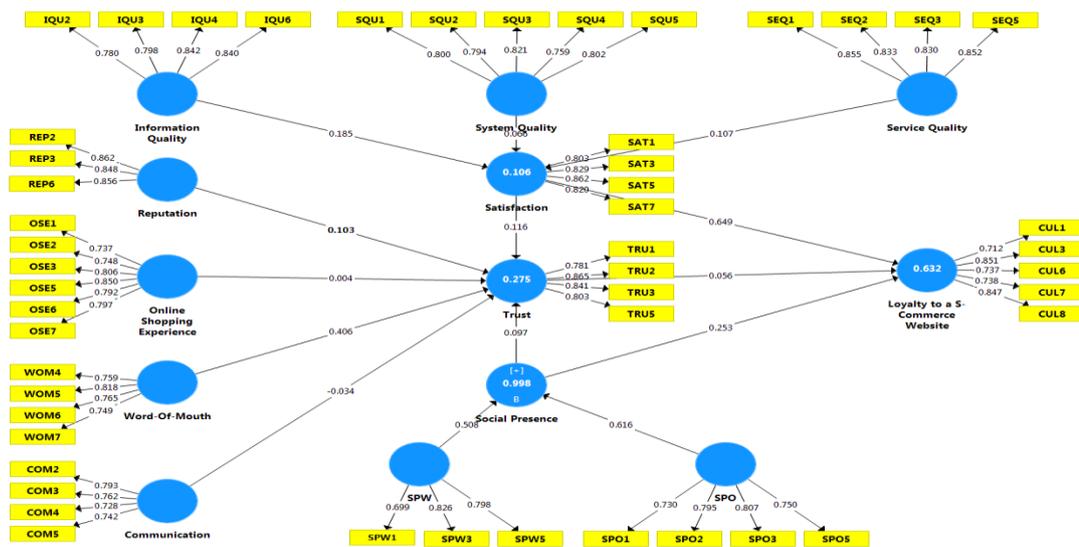


Fig 2: Structural Model

### 6.1.1 Assessment of the Second Order Construct

The second-order components were assessed on the basis of conceptual characteristics of the constructs. The internal reliability and construct validity are not needed because the second-order constructs were formative and all other constructs are reflective in nature (Henseler et al., 2009). Indicator validity for the associations between the second-order and first-order constructs was determined by the significance of the path coefficient (Hair et al., 2012b). The results indicate that path coefficients are significant. The significant paths are for the relationships between SPO and Social Presence ( $\beta=0.615$ ,  $t=40.324$ ,  $p=0.000$ ) and SPW and Social Presence ( $\beta=0.508$ ,  $t=33.663$ ,  $p=0.000$ ). These significant lower-order constructs were maintained in the model because they formed the higher-order constructs.

## 6.2 Assessment of Structural Model

The structural model assessed by evaluating the path coefficients, the coefficient of determination ( $R^2$ ), and the effect size ( $f^2$ ). First, the results of the structural model depicted in Figure 2 show that H1, H2, H3, H4, H5, H6, H8, H9 and H11 have a strong support with a path coefficient between 0.06 and 0.41. Results shown that H10, H12 and H7 were rejected implying that online shopping experience and communication have insignificant relationship with trust and system quality has no significant relationship with satisfaction. Second,  $R^2$  value determines how much variance in endogenous variables is explained by the model (Chin, 2010).  $R^2$  of customer loyalty, trust and satisfaction are 0.63, 0.28, and 0.11 respectively. Third, The effect size is used to measures the strength of the relationship between two variables (Hair et al., 2012). Results show that  $f^2$  effect sizes are 1.7, 0.12 and 0.38 for customer loyalty, customer satisfaction and trust respectively (Ringle et al., 2012). With these results, it concludes that all hypotheses were accepted except H7, H10 and H12.

The findings demonstrate that reputation, satisfaction, word-of-mouth, and SP positively contribute to explaining the variance in trust. In construct, communication, and online shopping experience did not contribute to explain the variance in trust. Examining the relevance of significant relationships between the six exogenous constructs with trust, the results show that satisfaction, reputation, word-of-mouth, and SP carry comparable weights in impacting trust with path coefficients that are different in magnitude. The result implies that satisfaction, reputation, word-of-mouth, and SP are important factors to predict trust rather than communication, and online shopping experience. Our findings are consistent with previous studies.

Among the exogenous constructs as predictors of satisfaction, service quality and information quality influence satisfaction most significantly, whereas system quality does not influence satisfaction significantly. Our findings are consistent with previous studies. Jaiswal et al. (2010) have indicated information quality to play an important role in influencing customer satisfaction in s-commerce. Molla and Licker (2001) have also emphasized the importance of information quality for user satisfaction in eCommerce.

Finally, this study found that satisfaction, trust and social presence have significant influence on loyalty to s-commerce website. Pai and Tsai (2011), proposed and tested a research model that examines key interceding processes, through satisfaction, trust and identification that trigger the association among virtual s-commerce consumer loyalty intentions and community participation. Akbar and Parvez (2009) also found that satisfaction of customer and trust significantly and absolutely associated to s-commerce customer loyalty. In the s-commerce context, researchers have found customer loyalty to be influenced by SP of the website. Mäntymäki (2009) found that SP of the web influenced the constituent factors of customer loyalty.

## 7. Conclusion

The literature shows very little related information and data about s-commerce vendors as separate customer. In this context, many s-commerce studies emphasis on business to consumer (B2C), in which business organizations used social media tools, techniques, functionalities or applications on their existing s-commerce websites. The primary objective of this study is to identify the factors affecting customers' loyalty to s-commerce website. The study found that satisfaction, trust and social presence have significant influence on loyalty to s-commerce website. This study contributes to the present understanding of the

relationship between s-commerce website loyalty and satisfaction, trust and social presence by incorporating reputation, word-of-mouth, communication, online shopping experience, service quality, information quality and system quality factors as antecedents.

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