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THE COLLECTIVE REALITY OF TRUST: AN INVESTIGATION OF SOCIAL RELATIONS AND NETWORKS ON TRUST IN MULTI-CHANNEL RETAILERS

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Abstract

Although there has been a plethora of research on online trust, there is evidence revealing that customers still do not trust online vendors to engage in transactions with them. While researchers have pointed out that the social relations and networks are key sources of trust, existing research do not place sufficient emphasis of social relations and networks on investigating trust in online vendors. This research tries to address this major limitation in trust research along with other weaknesses of trust research which are typically the exclusion of the aspects of emotional trust, lack of strong theoretical foundations as well as the unsatisfactory reflection of the conditions which trust operates in the methodologies. In this respect, this study uses sociological theories as firm theoretical perspectives for social relations and networks to manage trust and extends trust research to include multi-channel retailers. This research is expected to provide a useful framework for practitioners to manage trust using social relations and networks in a multi-channel retailer as well as introduce new dimensions of trust research for IS researchers.

Keywords: Social Relations and Networks, Trust Management, Multi-channel Retailers, Electronic Commerce

1 INTRODUCTION

E-commerce offers vast opportunities for vendors of any size and origin to conduct their business on the Internet (Stewart 2003). However, these opportunities can only be realized if consumers feel comfortable transacting from these vendors through the online presence (McKnight et al 2002). In a recent survey nearly 71% of the U.S web users report lack of trust in online vendors (as reported in CIO.com, 25 June 2002). Hence, trust of online vendors is a significant long-term barrier for realizing the potential of e-commerce (Grabner-Kraeuter 2002).

However, despite numerous studies on trust, several limitations are inherent. First and foremost, in the studies examining online trust, it is evident that the effects of social relations and networks on trust in online vendors have been understudied although the role of concrete personal relations, social influences and networks on trust is significant (Granovetter 1985). Secondly, extant research on trust has generally examined it only from cognitive trust (trust based on good reasons) although emotional trust is needed beyond cognitive trust for the truster to make a leap to expectations (Mollering 2002). Thirdly, researchers have typically relied on frameworks or empirical studies to identify trust antecedents without providing firm theoretical basis (e.g. Lane & Bachmann 1996; Doney & Cannon 1997). Fourthly, various trust studies in e-commerce have examined initial online trust using fictitious websites and hypothetical scenarios (e.g. Stewart 2003) which do not satisfactorily reflect the conditions of trust. Certain conditions on the part of the individual need to be present before determining if one is in a state of trust (Moorman et al 1992). Finally, many trust antecedents in various studies have been mainly applied to pure-play online companies and it is evident that trust management for multi-channel companies is under-investigated (Xu et al 2004).

In order to overcome these limitations, this research investigates the following research questions: 1) How do customers' offline and online social relations within their social networks affect the cognitive trust on the online presence of a multi-channel retailer? 2) How do customers' offline and online social relations with multi-channel retailers affect cognitive trust and emotional trust of the online presence of a multi-channel retailer? 3) How do cognitive trust and emotional trust lead to customers' favourable expectations of a multi-channel retailer?

2 LITERATURE REVIEW

2.1 Existing Trust Research in Organizational Studies and Marketing

To deliberate on trust among organizations, Granovetter (1992) identified two aspects of embeddedness. Relational embeddedness captures the quality of dyadic exchanges- the degree to which exchange parties consider one another's needs and goals (Granovetter 1992). Structural embeddedness is the network's overall structure or architecture and its impact on behaviour. It diffuses values and norms that enhance coordination among parties and disseminates information about parties' behaviours. The influence of structural embeddedness on trust has been understudied as most organizational studies have emphasized on formal structures as well as formal business relations to induce trust. The emphasis of formal structures is evident in trust building framework proposed by Zucker (1986). Institution-based trust highlights the importance of the institutional context (formal structures) in producing trust. Such an approach of deriving trust antecedents has been adopted by McAllister (1985) as well as Lane and Bachmann (1996). On the other hand, various studies in inter-organizational trust have focused on formal business relations (e.g. Das & Teng 1998, Lane & Bachmann 1996). Such studies have often emphasized the importance of business relations based on control mechanisms, legalities and characteristics of the business environment. However, both emphases on formal structures and business relations have caused the neglect of informal social relations and networks.

A well-known trust development framework in marketing is Doney and Cannon (1997)'s five cognitive processes: calculus, prediction, capability, intentionality and transference. Although widely used by researchers, this framework has emphasized only the cognitive aspect of trust leading to the state of trust, without considering the relationship between cognitive and emotional trust and how they result in the state of favourable expectation. Moreover, Doney and Cannon's framework is based on the review of previous empirical studies on trust and the presence of a solid theoretical foundation to identify trust antecedents is lacking. Furthermore, although the contexts of relations between buyers and sellers and relations between companies and customers have been investigated in marketing, there have been few studies examining the effects of the quality and structure of relations in buyers' and customers' social networks on trust.

2.2 Existing Trust Research in IS

Research efforts on online vendors in the IS arena have argued that the link between cognitive trust and favourable expectation is strong, neglecting the role of emotional trust for customers to overcome the increased uncertainty (system-dependent and transaction-specific) in e-commerce (Grabner-Kraeuter 2002). Moreover, Simmel (1950) and other sociological literature presumes a much weaker link between the identifiable cognitive base of trust and the actual expectations when they reach a state of trust. Studies on online vendors have often been based on frameworks and empirical studies (e.g. Koufaris & Hampton-Sosa 2004), consequently leading to the lack of strong theoretical foundations to identify antecedents of trust. Furthermore, it is evident that how customers' relations and networks affect the trust in the online channel of the vendor has not been given sufficient importance.

Another characteristic of certain trust studies on online vendors in IS is that they have examined trust only during the initial interaction (e.g. Koufaris & Hampton-Sosa 2004, McKnight et al 2002, Stewart 2003). However the initial interaction with the website is insufficient to engender realistic cognitive trust of users and without prior experience with the vendor, trust can be mainly based on individual disposition to trust (McKnight et al 1998). Besides, the conditions under which trust operates have not been reflected satisfactorily in the methodologies of previous studies. Many studies have analyzed trust by using fictitious websites and hypothetical scenarios (e.g. Gefen et al 2003, Koufaris & Hampton-Sosa 2004, Stewart 2003). Such methodologies do not reflect uncertainty, risk, interdependence and possibility of opportunism in a recurring relationship (Moorman et al 1992, Uzzi 1999). To better represent trust under the conditions it operates, the focus of this study will be on repeated-interaction trust of actual customers. This is vital as actual customers face uncertainty whether the product will be delivered, are genuinely dependent on vendors to deliver their products and do experience the possibility of opportunism in recurring relationships which are conditions of trust obtained from previous literature.

Finally, research on online trust has often been conducted in the context of pure-play online retailers (Xu et al 2004). Consequently, how multi-channel retailers manage trust for their virtual presence has often been neglected and understudied although many retailers have both channels these days. In search for online-offline synergy, the transference of trust from the offline services to the online presence is identified as one of the potential benefits (Stewart 2003).

2.3 Social Capital Theory

To provide a firm theoretical framing of the influence of social relations and networks on trust and how it ultimately leads to expectations, sociological theories are used. In this respect, the concept of social capital has been advocated by sociologists to explain social action as it exists in the relations among people (Coleman 1988). Social capital has been defined as the value of any aspect of informal social organization that constitutes a productive resource (i.e. trust) for one or more actors (Coleman 1988). Coleman (1988) has argued that there are three forms of social capital that can produce trusting behaviours: obligations and expectations, information channels; norms and effective sanctions. With

the existence of social relations between the customer and company, there is an obligation on the part of the company to provide the product or service to meet the expectations of the customer. Another important form of social capital is the potential for information that inheres in social relations. If positive information about the seller spreads through the social relations in the customer's social network, trust in a vendor can increase. Social relations that provide information that facilitates action constitute a form of social capital that can be used to manage trust towards the online presence of organizations. Furthermore norms constitute a powerful form of social capital (Jones et al 1997). For example, it can facilitate certain actions (purchasing products or services online) and constrains others (fraud or dishonesty of online vendors) (Coleman 1988). Effective sanctions involve group members punishing other members who violate group norms, values or goals and range from gossip and rumours in social networks to ostracism (exclusion from the network for short periods). Effective sanctions can safeguard e-commerce transactions, for they define and reinforce the parameters of acceptable behaviour by demonstrating consequences of violating norms and values.

2.4 Social Network Theory

Social network theory (Granovetter 1973) highlights how information is disseminated through informal channels especially when the services are difficult to evaluate (Brown & Reingen 1987). This theory provides an understanding of not only the structure of social relations within networks but also the strength of the ties which can impact the customers' cognitive trust of the vendor. Regarding the structure of relations, the relative position of a person within a network can determine the influence of information received and disseminated (Buskens 1998). Studies in social network theory show that central actors in a network adopt innovations faster and can be expected to receive and spread more information (Buskens 1998). The strength of ties between actors in a network also affects the spread and influence of information (Granovetter 1973). Researchers such as Murray et al (1981) argued that beneficial information is more likely to be spread through strong ties rather than weak ties. The ties between the two customers are helpful if information about the benevolence or deceit by the vendor is to be spread to one aware customer to an unaware customer, which affects the cognitive trust of the vendor.

2.5 Theory of Expectation, Interpretation and Suspension

Mollering (2002) has presented a theory that conceptualizes trust as a mental process of three elements: expectation, interpretation and suspension. According to Mollering (2002), trust stands for a process in which our interpretations are *accepted* and the awareness of the unknown, unknowable and unresolved is *suspended* (emphasis in original). If trust's destination is a state of favourable expectation (from which functional consequences follow like online purchasing), then its point of departure is the experiencing of the real world which we interpret reality to be (rational reasons). Suspension can be defined as the mechanism that brackets out uncertainty and ignorance, making interpretative knowledge momentarily certain and enabling the leap to favourable expectation. It is evident that past research on cognitive trust describes interpretation element of trust while emotional trust (the security and comfort in relying on a trustee) is appropriate to describe trusters taking the leap to expectation. Mollering (2002) has pointed out that interpretation and suspension always combine. The leap of trust cannot be made from nowhere or anywhere but needs to be made from the place where interpretation leads the truster. This suggests that cognitive trust precedes emotional trust and emotional trust leads to the formation of favourable or unfavourable expectations.

3 MODEL AND HYPOTHESES

Based on the three sociological theories in the literature review, a research model is proposed to investigate the effect of social relations and networks on customers' trust in Figure 1.

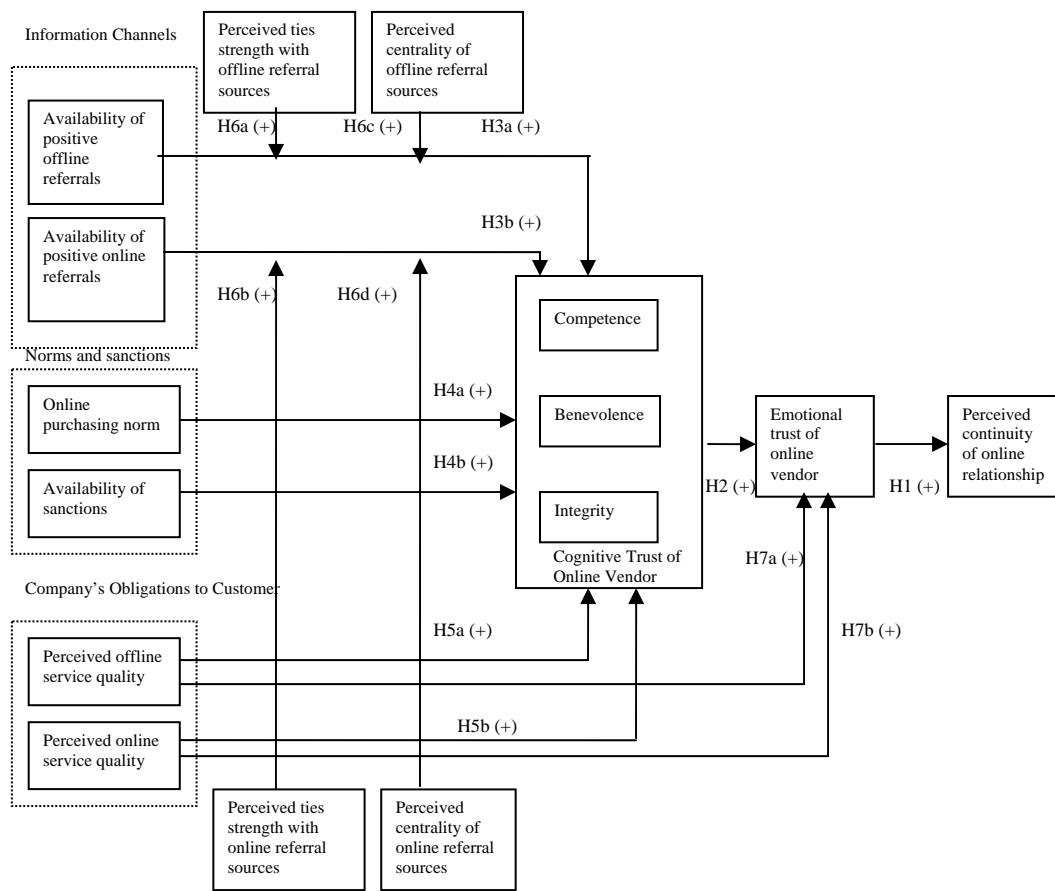


Figure 1. Research Model

The definition of online trust in this study is the state of favourable expectation regarding the online vendor's actions and intentions (Mollering 2002) formed from cognition and emotion (Lewis & Weigert 1985) under the conditions of uncertainty, risk, interdependence and possibility of opportunism in a recurring relationship (Moorman et al 1992, Uzzi 1999). To assess this favourable expectation of customers in this study, a dependent variable continuity of relationship is used. This construct is crucial (unlike the intention to use the website or intention to purchase) as it reflects more accurately the conditions of which repeated interaction trust operates.

3.1 Cognitive Trust, Emotional Trust and Perceived Continuity of Online Relationship

In the theory of expectation, interpretation and suspension, Mollering (2002) argued that the element of suspension enables trusters to take the leap to favourable expectation. Hence we postulate emotional trust will influence the customer to form positive perceptions of relationship continuity and is affected by cognitive trust.

Hypothesis 1: The level of customer's emotional trust is positively related to the level of customer's perceived continuity of online relationship.

Hypothesis 2: The level of the customer's cognitive trust of the online vendor is positively associated with the level of emotional trust in the online vendor.

3.2 Social Capital and Cognitive Trust

According to the social capital theory (Coleman 1988), three forms of social capital have been identified which can affect cognitive trust: information channels, norms and sanctions and company's obligations to customers. Firstly, how information in social relations can affect trust can be explained

using attribution theory (Kelley 1967). Positive or negative attributions can form depending on the information being disseminated. Therefore, it is hypothesized that the availability of positive referrals within the social relations of offline and online social networks which is vital information for customers (Granovetter 1973) can increase cognitive trust in the online vendor.

Hypothesis 3a: The availability of positive referrals in offline social networks is positively related to the level of customer's cognitive trust of the online vendor.

Hypothesis 3b: The availability of positive referrals in online social networks is positively related to the level of customer's cognitive trust of the online vendor.

Effective norms and sanctions that inhibit fraud on e-commerce make it possible for customers to purchase from vendors without fear that the vendor will be dishonest in its dealings (Coleman 1988). Social interactions with people in the offline and online social structures can enable online purchasing norms to evolve from the interactions. The availability of sanctions is the presence of sources in the social networks punishing the online vendor who violate the goals and value of customers (Jones et al 1997). This can range from negative word-of-mouth, gossip and rumours to ostracism (i.e. not patronizing the vendor for a period of time) (Jones et al 1997). When the customer knows of the existence of such collective sanctions against the vendor in the social network should the vendor resort in malfeasance, cognitive trust in the online vendor increases.

Hypothesis 4a: The level of online purchasing norm is positively related to the level of customer's cognitive trust in an online vendor.

Hypothesis 4b: The availability of sanctions is positively related to the level of customer's cognitive trust in an online vendor.

The company's obligations in attempting to meet the expectations of the customers can be used to manage trust. Marketing researchers (e.g. Parasumaran et al 1988) have concluded that service quality is founded on a comparison between what the customer feels should be offered (expectations) and what is provided (obligations of company). For multi-channel retailers, the service quality administered to customers can be offline or online. Hence offline and online service quality have positive influences on customers' cognitive trust.

Hypothesis 5a: The level of perceived offline service quality is positively related to the level of customer's cognitive trust in the online vendor.

Hypothesis 5b: The level of perceived online service quality is positively related to the level of customer's cognitive trust in the online vendor

3.3 Social Network and Cognitive Trust

While the availability of positive referrals measures the presence of social network activity that occurs, ties strength represents the qualitative aspects of relationships in the social network of an individual. Using social network theory (Granovetter 1973), if the strength of the ties between the customer and the source of positive information in the word-of-mouth is stronger, the relationship between the availability of positive referrals and customer's cognitive trust of the online vendor will be more positive.

Hypothesis 6a: The perceived strength of ties with referral sources in the customer's offline social network is a moderator of the positive relationship between the availability of positive offline referrals and the level of customer's cognitive trust of the online vendor.

Hypothesis 6b: The perceived strength of ties with referral sources in the customer's online social network is a moderator of the positive relationship between the availability of positive online referrals and the level of customer's cognitive trust of the online vendor.

A person with high centrality would be a knowledgeable and influential word-of-mouth referral source in a customer's social network (Feick & Price 1987). As the referral source is highly involved in providing information about online purchases within the customer's network, the customer is more

likely to perceive the information received about the online vendor's behaviour to be trustworthy and reliable. Using social network theory (Granovetter 1973), if the centrality of referral sources is greater, the relationship between the availability of positive referrals and customer's cognitive trust of the online vendor will be more positive.

Hypothesis 6c: The level of perceived centrality of referral sources in the customer's offline social network is a moderator of the positive relationship between the availability of offline positive referrals and the level of customer's cognitive trust of the online vendor.

Hypothesis 6d: The level of perceived centrality of referral sources in the customer's online social network is a moderator of the positive relationship between the availability of online positive referrals and the level of customer's cognitive trust of the online vendor.

3.4 The Direct Impacts of Other Antecedents on Emotional Trust

Offline and online service quality constitute the customers' direct social relations with the retailer as well as purchasing experiences. Trust literature in psychology reveals that emotional trust is an outcome of direct interpersonal relationships (e.g. Holmes 1991). Empirical studies also show that the customers' purchasing experiences can affect customers' emotions (e.g. Taylor 2000), suggesting that offline and online service quality can make them more secure and comfortable on relying on the online presence of the vendor, thereby positively affecting the emotional trust of the online vendor.

Hypothesis 7a: The level of perceived offline service quality is positively related to the level of customer's emotional trust in the online vendor.

Hypothesis 7b: The level of perceived online service quality is positively related to the level of customer's emotional trust in the online vendor.

4 METHODOLOGY AND EXPECTED CONTRIBUTION

The research instrument to measure the constructs of interest will be developed by adapting existing measures to the research context or by converting the definitions of the constructs into a questionnaire format. Following pre-tests of the instrument on small student samples, with a field survey of actual customers of the offline and online presence of multi-channel retailers, this study is expected to address a number of limitations of previous studies by including the aspect of emotional trust, investigating trust under the conditions which it operates through repeated interaction trust and extending it to the context of multi-channel retailers. This study will also provide a useful framework for practitioners to manage trust using social relations and networks in a multi-channel retailer.

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