Chapter XII

# Examining User Perception of Third-Party Organization Credibility and Trust in an E-Retailer

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## ABSTRACT

*Despite the fact that over half of U.S. residents are now online, Internet users hesitate to enter into transactions with e-retailers in the absence of certain assurances. Recent IS research shows that institution-based assurance structures, such as Web seals, are drivers of online trust. We extend the research in online trust to include the effect of third-party organization (TPO) credibility on both Internet users' perceptions of assurance structures and purchase risk. Findings indicate that TPO credibility is positively related to the value that Internet users assign to assurance structures and negatively related to perceptions of purchase risk. Furthermore, perceptions of TPO credibility are strongly associated with users' trusting attitudes toward the e-retailer. For some online consumers, trust may have less to do with privacy and security and more to do with the reputation of the TPO. These findings have important implications for the design of Web sites, the selection of assurance providers and services, and the reputation of both e-retailers and providers.*

# INTRODUCTION

Compared to the 130-plus-years existence of telephone communications in the United States, the development of the Internet is still in its infancy. Today, more people go online to communicate via e-mail than to send first-class letters. The U.S. Census Bureau reports that more than 54% of Americans have access to the Internet, with 84% of Internet users engaging in e-mail, 67% searching for information, and 39% purchasing products (NTIA, 2002). The Internet is changing not only the way people communicate but how they shop, invest, and gather information. By overcoming barriers of time, place, and distance, the Internet renders considerable economic benefits. Yet, significant numbers of Internet users hesitate to transact online and, thus, forgo the economic efficiencies of the medium.

Empirical research confirms the significance of trust in order for e-commerce transactions to occur between buyers and unknown sellers (Hoffman, Kalsbeek, & Novak, 1999; Shankar, Urban, & Sultan, 2002). Since trust is an important component of e-commerce, understanding the antecedents to trusting attitudes should be of major concern to e-retailers. Often, Internet users decline to enter into transactions with e-retailers in the absence of certain assurances. IS research reveals a positive relationship between institution-based structures (e.g., Web assurance seals), online trust, and intent to purchase (Houston & Taylor, 1999; Kovar, Gladden-Burke, & Kovar, 2000; Lala, Arnold, Sutton, & Guan, 2002; Odom, Kumar, & Saunders, 2002; Wakefield, 2001). Institution-based structures are significant trust drivers that mitigate perceived risks and allow Internet users to believe that they are supported externally (McKnight, Cummings, & Chervany, 1998). Researchers (Shankar et al., 2002) believe it is important to continue to identify the salient assurance needs of online stakeholders in order to implement and to enhance the dominant drivers of trust in an e-business strategy.

One objective of this study is to extend the IS trust research in order to encompass Internet user perceptions of the role of institution-based assurance structures in e-commerce. Online trust is a complex and multi-dimensional concept related to the success of e-retailers, and the role of assurance mechanisms may be perceived differently by e-retailers and Internet users. For example, e-retailers utilize assurance service providers such as BBB Online or TRUSTe in order to convey legitimacy, among other things, to online consumers. However, research shows that online shoppers rarely consult the privacy and security statements of the assurance provider or differentiate among providers (Odom et al., 2002). Nevertheless, third-party assurances are shown to promote trust in the electronic environment. It is likely that online consumers consider other aspects of the assurance provider apart from the actual assurances before entering into electronic transactions. The specific attributes of assurance providers that convey trust is generally unknown and unexamined. This dearth of knowledge has significant implications for e-retailers in their selection of a provider and in the scope of services that they purchase. This study contributes to the online trust literature by examining additional antecedents of trust in the online marketplace.

Specifically, a model is constructed that examines user attitudes toward third-party organization (TPO) assurance providers and the effect of those attitudes on trust in the e-retailer. We propose that TPO credibility is an important factor in the value that users assign to the institution-based assurance (i.e., Web site seal) associated with the TPO. Credibility factors are important antecedents of trust in tradition buyer-seller exchanges (Harmon & Coney, 1982; Moore, Hausknecht, & Thamodaran, 1988; Sternthal, Dholakia, & Leavitt, 1978) but have not been applied yet to the electronic marketplace. It is our goal to better understand the mechanisms by which institutional assurance structures shape the trusting attitudes

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