# Chapter 2.15
# Signals of Trustworthiness in E-Commerce:
## Consumer Understanding of Third-Party Assurance Seals

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## ABSTRACT

Signaling theory provides the framework to address three main research questions: (1) How accurately do consumers notice and recollect TPA seals on retail Web sites? (2) How familiar are consumers with major TPA seals? and (3) How accurately do consumers understand the assurances represented by the TPA seals? Results of this study of three major TPA seals (TRUSTe, BBBOnLine Reliability, and VeriSign) reveal that subjects have poor recall of TPA seals viewed on a Web site, have limited familiarity with TPA programs, and have incomplete and largely inaccurate perceptions of the assurances that TPA seals represent. These results suggest that TPA seals may not fulfill their potential to influence consumer trust in e-commerce because the signals are not noticed on merchant Web sites or adequately understood by consumers.

## INTRODUCTION

According to recently reported consumer sales figures, business on the Internet continues to grow. U.S. electronic-commerce (EC) sales totaled $86.3 billion in 2005 (Scheleur, King, & Shimberg, 2006), an increase of 24.6% from the previous year. During the same period, total retail sales increased only 7.2 % (Scheleur et al., 2006). Forrester research predicts that U.S. business-to-consumer (B2C) EC will grow to $229.9 billion by the year 2008 (Johnson, Delhagen, & Yuen, 2003). Despite high growth statistics for EC, it still accounts for only 2.3% of total sales (Scheleur et al., 2006). As a percentage of retail sales, some have observed that EC growth has failed to meet early predictions (AICPA, 1998; Federal Trade Commission, 1998; Sivasailam, Kim, & Rao, 2002). Understanding why many consumers have chosen not to purchase products from online

merchants is certainly important. One explanation for consumer hesitancy to shop online put forth by EC researchers and industry practitioners alike is the lack of trust between consumers and online retailers (Gefen, 2000; Gefen, Karahanna, & Straub, 2003; McKnight, Kacmar, & Choudhury, 2004; Portz, Strong, Busta, & Schneider, 2000). In a major survey conducted by Forrester Research, almost two-thirds of respondents reported that they chose not to buy products online because of their concerns about how their personal information would be used by online merchants (Portz et al., 2000). Further, some argue that the trust gap is widening as the public becomes more aware of the information risks involved in Internet shopping (Perez, 2005).

The EC marketplace is characterized by a high level of information asymmetry and a low level of personal interaction between consumers and merchants. As a result, it has proven difficult, especially during initial encounters, for consumers to determine which online merchants can be trusted to provide quality products or services, to fulfill their orders accurately and promptly, and to protect their personal and financial information. One strategy employed by online merchants in order to show consumers that they are worthy of trust is to display third-party assurance (TPA) seals on their Web sites. These seals are visual signals to shoppers that an online merchant has met the specific trustworthiness standards put forward by a seal-sponsoring organization. Merchants who choose to participate in TPA programs do so with the expectation that displaying a TPA seal on their Web sites will facilitate consumer trust and stimulate increased online sales.

The effectiveness of TPA seals for building consumer trust has received enthusiastic support within the EC industry and the research community (ITSecurity, 2002; Luo, 2002; PublicEye, 2002; Schoder & Yin, 2000; Sivasailam et al., 2002). Unfortunately, empirical studies have found little impact of TPA seals on increasing consumer trust in Web merchants or in decreasing consumer concerns about online security or privacy risks (Kim, Steinfield, & Lai, 2004; Kimery & McCord, 2002; Mauldin & Arunachalam, 2002a, 2002b). If TPA seals are not affecting their intended influence on consumers' perceptions of online merchant trustworthiness, then we must address why. Signaling theory (Spence, 1973, 1974) provides a framework for understanding how signals of trustworthiness such as TPA seals operate and may help to clarify why TPA seals seem to be failing in their effort to building consumer trust in online merchants.

Viewed through the lens of signaling theory, a TPA seal is a signal displayed by a merchant to communicate to consumers that the merchant has met the required trustworthiness standards of the seal provider and, as a result, can be trusted by the consumer. According to the theory, in order to be effective, a signal must first be perceived and accurately understood by the intended receiver before it can be assessed further by the receiver for honesty and reliability. A signal that is not perceived or understood by the receiver will not produce its intended outcome or return desired benefits to the signaler. If, as the limited available research suggests, TPA seals do not have a positive impact on consumer trust in online merchants, it may be, at least in part, because the seals are failing to capture shoppers' attention when displayed on Web sites. In addition, the seals may not convey the intended trustworthy message to shoppers because they are unfamiliar with the TPA programs and the assurances they provide. Using signaling theory as a foundation, this study explores how potential online shoppers notice and understand TPA seals on unfamiliar retail Web sites. This purpose is expressed in three main research questions:

1. How accurately do consumers notice and recall TPA seals viewed on unfamiliar retail Web sites?
2. How familiar are consumers with major TPA seals?