



Antecedents of trust in online auctions

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ABSTRACT

Customer loyalty or repeat purchasing is critical to the online auction sellers' survival and success. Previous research has established that online repeat purchase intentions are the product of buyer assessments of trust in the online seller. Previous research has also affirmed the importance of justice perceptions in engendering trust. These perspectives, however, have been examined independently by IS and management researchers. By integrating these two perspectives, a richer understanding of buyers' underlying beliefs and subsequent repeat purchase intentions can be gained. In the research model, bidding justice is proposed as a formative second-order construct driven by distributive justice, procedural justice, interpersonal justice, and informational justice. Bidding justice is hypothesized to positively affect trust in the community of sellers, which in turn is hypothesized to positively affect repeat purchase intentions. Data collected from 412 buyers in Yahoo-Kimo's online auction marketplace provide support for the proposed model. The study shows that trust is a significant positive predictor of buyers' intentions to repeat purchase. The study also shows that the four dimensions of justice are important components of bidding justice, which in turn has a strong positive effect on trust in the community of sellers. Implications for theory and practice and suggestions for future research are discussed.

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1. Introduction

The consumer-to-consumer (C2C) e-commerce or online auction market is growing rapidly and has become one of the most interesting developments in e-commerce. As with any online transaction mode, customer loyalty or repeat purchasing is critical to the survival of online auction sellers, especially as acquiring new customers costs more than retaining existing ones (Reichheld and Schefter, 2000). What, then, keeps buyers purchasing from online sellers? E-commerce research has addressed this issue from different viewpoints, including explanations based on trust (Gefen et al., 2003; Pavlou and Gefen, 2004), technology (Gefen et al., 2003; Pavlou, 2003) and, to a lesser extent, on psychological contract violation (Pavlou and Gefen, 2005).

Trust in sellers is a vital key to building customer loyalty (Reichheld and Schefter, 2000) and maintaining continuity in buyer–seller relationships (Anderson and Weitz, 1989). The spatial and temporal separation between online buyers and sellers leads to problems of asymmetry. A typical type is information asymmetry, which refers to a situation where one party to a transaction has more or better information than the other party (Akerlof, 1970).

From the perspectives of buyers, two aspects of asymmetric information are closely related to uncertainty and risk of fraud in the online transaction environment. One of these aspects is the anonymous identities of online sellers, and the other is incomplete or distorted information about the product (Ba and Pavlou, 2002). Many researchers have argued that trust is a crucial enabling factor in relations where there is uncertainty, information asymmetry, and fear of opportunism (Gefen et al., 2003; McKnight and Chervany, 2002; Pavlou et al., 2007), as is the case in online auctions (Ba and Pavlou, 2002; Pavlou and Gefen, 2004).

The psychological contract has been conceptualized as one aspect of the social exchange relationship that exists between individuals and their organizations (e.g., Robinson and Morrison, 1995). A psychological contract violation occurs when one party perceives that the other has failed to fulfill its obligations or promises (Rousseau, 1995). Based on the literature, psychological contract violation has a destructive impact on the trusting relationships between parties to an exchange (e.g., Pavlou and Gefen, 2005; Robinson and Rousseau, 1994; Rousseau, 1989). Researchers (Andersson, 1996; Morrison and Robinson, 1997) argue that triggers of psychological contract violation may be rooted in an exchange party's inability to fulfill its obligations or promises regarding justice perceptions. Feelings of violation will be influenced by judgments concerning the outcomes (distributive justice), the procedures implemented (procedural justice), and the quality of interpersonal treatment received from the exchange party (interactional justice) (Kickul et al., 2001). Therefore, justice

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theory offers a means by which to explain and understand buyers' trust in the sellers from the perspective of psychological contract violation.

Online auctions can be considered as an exchange of something with value (e.g., time, effort, money, products, or services) between the buyers and sellers. According to Adams' (1965) equity theory, when humans are involved in any exchange of value, they evaluate the balance between input and output (i.e., equity) of the exchange. Justice theory is an extension to equity theory and justice is a fundamental basis for the maintenance of relationships in social exchange (Lind et al., 1993). Prior research has validated the fundamental role of justice and its potentially constructive impact on organizational relationships (Folger and Konovsky, 1989; Ramaswami and Singh, 2003).

While justice has been primarily examined within the context of organizational relationships, this study proposes an extension of justice to buyer–seller relationships in online auctions. The logic behind the proposed extension is that, as with organizational employment relationships, online buyer–seller relationships also involve information or power asymmetry, and thus online transactions are also governed by justice. A vulnerable buyer, unable to avail him- or herself of traditional safeguards against seller opportunism (Kumar et al., 1995), must rely on the seller's sense of justice and restraint to avoid mistreatment (Anderson and Weitz, 1992). Consequently, buyers are, of necessity, concerned about seller justice. This is in line with recent information systems (IS) research where justice has been applied to customer-service provider relationships in online marketplaces (Turel et al., 2008), also extending the original context of previous justice research.

Extending the literature (Cropanzano and Greenberg, 1997) to buyer–seller relationships in online auctions, bidding justice is defined as a buyer's overall perception of fairness and evaluations regarding the appropriateness of treatment received from the sellers. Recent research by Colquitt (2001) revealed that justice is composed of four dimensions: distributive justice (fairness of outcomes), procedural justice (fairness of procedures), interpersonal justice (fairness of interpersonal treatment), and informational justice (adequacy of information about procedures and outcomes). Justice can remove trust-related uncertainty and alleviate much of the discomfort that uncertainty would otherwise generate (van den Bos and Lind, 2002). By operationalizing the four dimensions of justice as formative first-order indicators of bidding justice, this study contributes to our enhanced understanding of the over-arching effects of justice perceptions on buyers' trust in the community of sellers in online marketplaces.

2. Theoretical background

2.1. Trust

According to Blau (1964), trust is a key element in the emergence and maintenance of social exchange relationships. Bradach and Eccles (1989) view trust as a control mechanism that facilitates exchange relationships characterized by uncertainty, vulnerability, and dependence. These characteristics are reflected in the online auction environment, where buyers are unable to personally scrutinize the seller, physically examine the merchandise, or collect the merchandise upon payment. Buyers have limited information and cognitive resources available, and thus seek to reduce the uncertainty and complexity of online transactions by applying mental shortcuts (Grabner-Kraeuter, 2002). One effective mental shortcut is trust, which can serve as a mechanism to reduce the complexity of human conduct in situations where people have to cope with uncertainty (Luhmann, 1989).

Limited control over the seller and the absence of proven guarantees that the seller will not engage in undesirable opportunistic behaviors, mean that trust is a critical aspect of online auctions (Pavlou and Gefen, 2004; Pavlou and Gefen, 2005). Such behaviors include the sale of fake or defective products, fake photos and misleading descriptions, failure of the seller to deliver merchandise, failure to deliver in a timely manner, or sending something of lesser value than advertised. They can also include high handling and shipping costs, feedback padding (manipulation of buyers' feedback), and shill bidding (the seller makes bids under a fictitious name to artificially inflate the price). Indeed, some researchers have suggested that buyers generally have stronger intentions to make transactions with online auction sellers whom they trust (Pavlou and Gefen, 2005).

If trust is indeed an important aspect of online auctions, then understanding the antecedents of trust should be a prime concern for the online auction sellers. Based on prior trust research streams, McKnight et al. (1998) identified a number of trust antecedents: personality-based trust (propensity or disposition to trust), cognition-based trust (trust derived through cognitive cues or first impressions), knowledge-based trust (familiarity with other parties), institution-based trust (specifically, structural assurance beliefs and situational normality beliefs), and calculative-based trust (beliefs based on rationally derived costs and benefits). Some studies have examined the impact of those trust antecedents on buyer trust in the online seller or vendor. For example, Pavlou and Gefen (2004) empirically examined the influence of three IT-enabled institutional mechanisms—specifically, feedback mechanism, third-party escrow services and credit card guarantees—on buyer trust in the community of online auction sellers. Gefen et al. (2003) indicated that calculative-based trust, institution-based structural assurances and institution-based situational normality affected trust in an electronic vendor (e-vendor).

In addition, other studies also examined whether consumers' perceptions about characteristics of the seller or the website affected their trust in the seller. McKnight et al. (2002), for example, found that perceived e-vendor reputation and perceived website quality significantly influenced consumer trust in the e-vendor. Teo and Liu (2007) found that perceived reputation of an e-vendor was positively related to consumer trust. Gefen and Straub (2003) found that the sense of social presence in the website affected trust in electronic services (e-services). However, little research has been dedicated to the potential impact of justice on trust in the online auction context.

2.2. Justice theory

Before 1975, the study of justice was primarily concerned with distributive justice. Distributive justice refers to the fairness of outcome distributions or allocations. Much of this research was derived from initial work conducted by Homans (1961) and Adams (1965). Homans (1961) simple formula for distributive justice stressed the difference between the rewards people receive for some input. Adams (1965) used a social exchange theory framework to evaluate fairness. According to Adams' equity theory (Adams, 1965), an individual's perception of the fairness of exchange relationships is determined by comparing the output/input ratio for oneself with that of referent others. It theorizes that individuals seek a fair balance between input and output and become satisfied and motivated whenever they feel their inputs are being fairly rewarded.

Research on justice shifted to an emphasis on procedural justice in the late 1980s. Thibaut and Walker (1975) studies of disputant reactions to legal procedures led to the development of their theory of procedural justice. Procedural justice refers to the perceived fairness of the processes by which outcomes are allocated

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