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More than just financial performance: Trusting investors in social trading[☆]Veit Wohlgenuth^{a,*}, Elisabeth S.C. Berger^b, Matthias Wenzel^c^a HTW Berlin, Business School (FB 3), Treskowallee 8, 10318 Berlin, Germany^b University of Hohenheim, Entrepreneurship (570 C), Wollgrasweg 49, 70599 Stuttgart, Germany^c European University Viadrina, Chair of Management and Organization, Große Scharnstraße 59, 15230 Frankfurt (Oder), Germany

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ABSTRACT

Social trading is a new form of online community in which investors can automatically, simultaneously, and unconditionally copy the investments of other traders whom they trust. Using data from the social trading network eToro, this study uses fuzzy-set qualitative comparative analysis to explore configurations of cognition-based and affect-based signals of trustworthiness that generate trust and prompt one investor to copy another. This study identifies two configurations that prompt trust and the decision to copy. Those configurations rely on both cognition-based and affect-based signals of trustworthiness. Furthermore, the study identifies six configurations in which weak cognition-based and affect-based signals of trustworthiness lead to parties failing to establish trust. These findings contribute to a better understanding of the establishment and non-establishment of trust in online communities and have implications for social trading platforms and their members.

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1. Introduction

Scholars and practitioners increasingly emphasize the central role of trust in explaining the behavior of online community members (e.g. Chen & Dibb, 2010, Gupta & Kabadayi, 2010). Prior research in offline contexts shows that signals of trustworthiness are important means for actors to create trust (Mayer, Davis, & Schoorman, 1995). Yet, scholars emphasize that signaling trustworthiness plays an even more important role in online communities (O'Sullivan, 2015; Pagani, Hofacker, & Goldsmith, 2011; Shankar, Urban, & Sultan, 2002; Yang & Wang, 2015; Yousafzai, Pallister, & Foxall, 2005; Zhou, Wu, Zhang, & Xu, 2013). The volatility of relationships and a lack of face-to-face interactions among online community members can prevent the development of trust in long-term relationships (Morgan & Hunt, 1994). Scholars emphasize that “lack of trust is one of the greatest barriers inhibiting online trade” (Shankar et al., 2002, pp. 325) and that trust signals “play important roles” (Pagani et al., 2011, p. 442) in overcoming these barriers. Community members who proactively signal their trustworthiness online possess a powerful means to affect the behavior of other members (Gamboa & Gonçalves, 2014). However, although scholars strongly emphasize the importance of signaling

trustworthiness to support the coordination of behavior in online communities, trust within such communities is a nascent and largely untapped area of research.

This study aims to contribute to this emerging debate by examining signals of trustworthiness in the context of social trading. Scholars frequently examine online communities that serve as marketing channels (Ashley & Tuten, 2015), evaluation platforms (Orlikowski & Scott, 2013), sharing facilities (Yang & Wang, 2015), and sites for networking (Park, Shin, & Ju, 2015), but pay far less attention to social trading as a growing application of online communities (Doering, Neumann, & Paul, 2015; Pan, Altshuler, & Pentland, 2012). Social trading platforms allow investors to invest immediately and to observe other investors' trades and track records. Such social trading platforms form networks in which copy trading is a unique and increasingly popular opportunity. A network permitting copy trading means one where investors can automatically, simultaneously, and unconditionally replicate other investors' trades. The trustworthiness of online community members plays an even more important role in the online trading context. By directly copying the investment decisions of other online community members without evaluating the specific investments beforehand, investors entrust their investment decisions to other traders they have probably never seen in person. This trust-based delegation of decision authority is not common in other online communities and, owing to the immediate impact of trust on investment decisions, constitutes an interesting context for the examination of signals of trustworthiness.

The present study draws on the differentiation between cognition-based and affect-based signals of trustworthiness (McAllister, 1995) to investigate the necessary and sufficient signals that make traders appear trustworthy in the eyes of other investors, and thus prompt

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copy-trading decisions. The establishment of trust in online communities through the signaling of trustworthiness is a complex process (Shankar et al., 2002), and accordingly examining the phenomenon demands sophisticated methods to unlock its complexity (O'Sullivan, 2015; Roig-Tierno, Baviera-Puig, & Buitrago Vera, 2013; Weijo, Hietanen, & Mattila, 2014). Therefore, the current study applies fuzzy-set qualitative comparative analysis (fsQCA): fsQCA consciously infuses a qualitative logic to unbundle multifaceted, asymmetric, and equifinal phenomena that scholars might not be able to explore equally well using common quantitative methods (Armstrong, 2012; Fiss, 2011; Rauch, Decker, & Woodside, 2013; Woodside, 2013; Woodside & Zhang, 2013). This study investigates the focal phenomenon by examining activity on eToro – currently the largest social trading platform – with a dataset of signals of trustworthiness from 642,488 members.

2. Signaling trustworthiness in social trading

Trust is “a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behaviors of another” (Rousseau, Sitkin, Burt, & Camerer, 1998, p. 395). The willingness to accept vulnerability does not reflect a desire to be hurt, but builds on an expectation that no harm will occur (Möllering, 2006). Therefore, trust is a matter of a trustor's general propensity to trust and various signals that make the trustee appear trustworthy (Mayer et al., 1995). A person with absolute knowledge would have no reason to trust, and a person with a total lack of information would have no basis on which to establish trust (Luhmann, 1979; McAllister, 1995). In a social trading situation that lacks offline interaction, traders can only rely on the signals that other members on the social trading platform send (Pan et al., 2012).

McAllister (1995) and Deutsch (1960) differentiate between cognition-based and affect-based signals of trustworthiness. Cognition-based signals of trustworthiness indicate that the trustee is (technically) competent at a domain-specific task and also build on professional credentials. Accordingly, because a person trusts another in one specific domain does not mean that the trustor trusts the trustee in another. The domain-specific task in this study is the identification and execution of profitable investment decisions (Doering et al., 2015).

Affect-based signals of trustworthiness indicate that a trustee shares similar values with the trustor and does not pursue self-centered reward-seeking behavior (McAllister, 1995). These signals of trustworthiness complement the rather technical cognition-based signals of trustworthiness by adding a social component. Affect-based signals of trustworthiness also differ from cognition-based signals of trustworthiness in that they are not domain-specific but transferable among tasks. Thus, in social trading, affect-based signals of trustworthiness extend beyond professional credentials in making profitable investment decisions and include a host of potential social signals of trustworthiness (Pan et al., 2012), such as the provision of the full name, a personal picture, and frequent interactions.

Prior research in offline contexts suggests that trustees must use both cognition-based and affect-based signals of trustworthiness to build trust (McAllister, 1995). Therefore, although financial trading is a highly technical profession, and one in which cognition-based signals of trustworthiness are very likely to play an important role, this study also aims to investigate if affect-based signals are necessary for trustees to appear trustworthy and thus worthy of copying. As Lewis and Weigert (1985) and Möllering (2006) argue, when actors are able to complement hard facts with social signals of affect those actors appear trustworthy. If, on the other hand, parties transmit only weak cognition-based or affect-based signals, their relationships are likely to feature low or no perceived trustworthiness. Consequently, in social trading, several configurations of various signals of both types might equifinally explain the establishment of trust and hence the likelihood of copy trading (Doering et al., 2015). Fig. 1 illustrates how this study

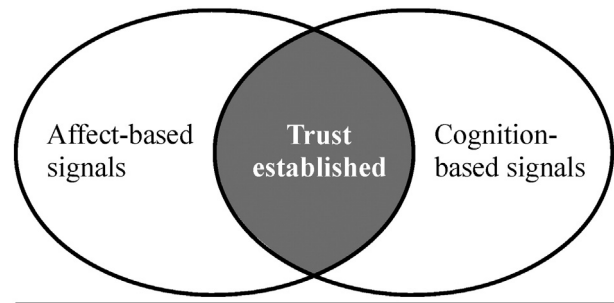


Fig. 1. Theoretical model.

conceives cognition-based and affect-based signals of trustworthiness as sets that in combination explain the super-set of established trust. Accordingly, this study hypothesizes:

- H1.** Configurations of both cognition-based and affect-based signals of trustworthiness explain established trust, and hence the decision to copy a trader.
- H2.** Configurations of only cognition-based or affect-based signals of trustworthiness explain the absence of established trust, and hence the decision not to copy a trader.

3. Method and data

To explore the signals that are necessary and sufficient to make traders appear trustworthy, and to prompt copy-trading decisions, this study applies fuzzy-set qualitative comparative analysis (fsQCA). The method is especially appropriate for this study because fsQCA allows for causal conjunction, asymmetry, and equifinality (Fiss, 2011; Ragin, 2008). Causal conjunction refers to the fact that different conditions may explain an outcome in combination with, rather than independent of, each other. Equifinality means that various alternative configurations can produce the same outcome. Causal asymmetry relates to the fact that the identification of a cause of an outcome does not necessarily imply that the absence of the very same cause leads to an inverse effect. Therefore, these effects merit separate consideration (Schneider & Wagemann, 2012).

This study analyzes data on signals of trustworthiness in a social trading context using the platform eToro, currently the world's largest social trading network. eToro allows its members to trade currencies, commodities, indices, and stocks. The eToro online community offers its members various opportunities to demonstrate trustworthiness, and accordingly is an ideal fit with this study's research purpose. The dataset contains the signals of 642,488 community members between January 2013 and May 2015. To explain different configurations of signals of trustworthiness and their outcomes, this study identifies those signal providers who successfully establish trust and those who fail to establish trust. The current research requires traders to be visible to potential copiers, and accordingly the data analysis only includes leading active traders, with more than 30 days' activity, who trade at least once per fortnight, and have at least one investor copying them. The final dataset includes signals from 2048 individual traders.

The study analyzes the outcomes “trust established” and “no trust established,” operationalizing the outcomes as the number of copiers, that is, the number of people willing to trust the trader with their investment decisions. Table 1 provides an overview of descriptive statistics and calibration criteria for the outcome and all seven conditions.

eToro grants a separate payment to traders who attract many copiers and thereby help the online community grow. This payment increases at certain thresholds. The calibration of the number of copiers builds on eToro's remuneration scheme. The “rising star payment,”

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