Risk Reduction Strategies in Online Shopping: E-trust perspective

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Abstract

Several studies have shown that consumers perceive higher risks buying online than in conventional way. Perceived risks affect all purchase decisions and consumers' behavior, by deterring them to buy. These risks come from the lack of trust of shoppers toward online vendors' credibility. The main field of research in this paper is to investigate how trust is affecting the consumers engagement to e-commerce, in order to conclude in which security measures should be taken in order to mitigate perceived risks. A framework for a field research is also given in order to identify the causal relationships between electronic service quality and e-loyalty, e-satisfaction and e-trust.

Keywords: online shopping; e-commerce; e-trust; risk reduction

1. Introduction

The online shopping is a process of electronic commerce whereby customers directly contact with e-vendors and thereby they can buy goods or services from an online store (Chaffey, 2009, p. 88). There are four key elements of business-to-customer (B2C) electronic commerce (Doolin et al. 2005, p. 66) exchanges, according to Ranganathan and Ganapathy (2002, p. 457), which have impact on online purchase intent: information content, design, security,
and privacy. These key elements are considered as barriers to buyer’s purchase intention. Therefore, the e-companies have to deal with them in order to gain confidence of the buyer. Before developing strategies for mitigating risks, an e-company should first evaluate and predict buyer’s behavior (Layton, 2005). However, an e-company should initially understand what psychology aspects influence consumer’s purchase intention in order to set proposals and develop strategies aiming to reduce risks effectively. The main purpose of this paper is to show what factors strengthen e-buyer’s trust and thereby to help in adoption of online shopping. In addition, this paper aims to shed some light upon the areas regarding the security strategies that have to be put in place in order to mitigate risks, which undermine buyer’s trust.

The rest of the paper is organized as follows: Section 2 presents the factors and dimensions of online trust and the deterrent factors (“risks”) of online shopping. Section 3 proposes strategies to reduce risks of online shopping. Section 4 describes a framework for a field research and section 5 discusses major issues and concludes the paper.

2. Online Trust – Factors, Dimensions and Risks

In this section, firstly, the notion of trust is analyzed and secondly it is examined how trust can be built in order to boost buyer’s confidence. There are many definitions of the trust (Meyer and Ward, 2009, p.1). According to Luhmann (2000, p. 94) “trust is a solution for specific problems of risk”. The electronic commerce environment includes several distinct factors that influence buyer’s trust (Ha, 2004) and an effective approach to the establishment of trust is usually a multidisciplinary one (Cheung and Lee, 2006). Trust is an important factor regarding the adoption and development of e-commerce.

“The Internet has evolved into an important marketing medium and is now an integral part of a multichannel strategy for firms” is stated by Bart et al. (2005, p. 133). Following the traditional marketplaces, the strategic framework of online management should include several dimensions regarding the successful implementation of e-company’s vision. According to Bart et al. (2005, p. 133) there are distinctions in relationship across internet sites and customer groups. Jiang et al. (2008) mention several surveys showing that online customers make their purchases from websites that they trust in and recognize the credibility of e-vendors. The key for an e-company to achieve long-term success against competitors and thereby to gain competitive advantage is to build consumer “trust” (Keeney, 1999; Suh and Han, 2003; Pavlou and Fygensen, 2006).

According to Lewicki (1998) three dimensions - ability, integrity, and benevolence- affect the level of trust. Ability and integrity are likely to be most influential earlier as information on one's benevolence needs more time to emerge. Lewicki and Tomlinson (2003) stated “an individual will carefully calculate how the other party is likely to behave in a given situation depending on the rewards for being trustworthy and the deterrents against untrustworthy behavior”. A model of argumentation is proposed (Ha, 2004, p. 329) identifying factors e.g. security, privacy, brand name, word-of-mouth, good online experience, quality of information, that strengthen the effect and such an e-company having these features (“Risk Relievers”) can boost customer’s confidence. The factors mentioned above are related to reinforcement of brand trust. In Table 1, the factors that enhance buyer’s confidence in the broader field of online shopping are presented. Furthermore, other dimensions that have positive effect on customer attitude and behavior are enjoyment, and perceived control. These dimensions lead to greater trust in the company itself through the customers’ perceptions about the web site’s usefulness and ease of use (Koufaris and Hampton-Sosa, 2002, p. 5).

Table 1. Factors that enhance e-trust.

<table>
<thead>
<tr>
<th>New Risk Relievers</th>
<th>Definition</th>
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<tr>
<td>Cheaper Brand</td>
<td>Choose cheaper brands to buy</td>
</tr>
<tr>
<td>Special offers</td>
<td>Buy from e-retailers who make special offers</td>
</tr>
<tr>
<td>Information on the package</td>
<td>Check for several information on the package related to the order</td>
</tr>
<tr>
<td>Consumer magazine</td>
<td>Seek for information about e-vendor’s credibility into several consumers’ magazines</td>
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Risks (deterrent factors) reduce e-shopper’s discouraging the customers to buy, and undermine the credibility of an e-company. Hence, e-companies should be aware of these risks and protect their assets while extending their consumers. According to Greatorex and Mitchell (1994, p.669) the “perceived” risks are related to the perception and the psychology of buyer. Marek et al. (1987) defined perceived risk as a perceived risk, comprising evaluations of possible undesirable outcomes. Perceived risks depend significantly on several factors such as individual’s knowledge and values. Electronic commerce involves more uncertainty and risks than traditional commerce because consumers have to deal with new transactions never faced before (Mitchell, 1999, p. 164). Eggert (2006) stated that there are three intangibility dimensions -physical, mental and generality-, which “had great impact on most of the perceived risk dimensions”. Therefore, the purchasing environment plays a significant role in the perception of risks.

3. Strategies to Reduce Risks in Online Shopping

According to Wylder (2004, p.158) “there are several risk mitigation strategies which include access control policies, physical security and perimeter security policies, and remote access policies and methodologies”. A successful information security program comes through a combination of technical and nontechnical efforts. According to Miyazaki and Fernandez (2001, p. 40) the key strategy of online marketers to increase consumer trust in online exchanges is to display privacy and security seals on their web sites. Several technical security measures, mainly related to security and privacy, could be taken to safeguard sensitive information of e-company’s assets e.g. the sign-on security system, and third party verification and Internet seals. Online privacy refers to the protection of information via Internet (Bart et al., 2005, p. 135; Bansal et al., 2009, p. 404) from unauthorized invasion (Bart et al., 2005, p. 135; Bansal et al., 2009, p. 404). Security consists of four (4) elements: authentication, authorization, encryption, and auditing. Sign-on security system could be seen as a combination of authentication and authorization models that permit authorized people’s activities, and prevent unauthorized actions. Furthermore, the consumer has to take personal security measures e.g. use of anti-virus software, use of a safe browser, making purchases through verified online stores, use of complex passwords. Finally, the consumer should seek in online stores the components that verify the credibility of payments standards such as: SET (Secure Electronic Transaction), and SSL (Secure Socket Layer) (Bhiogade, 2002, p. 85; Omariba et al. 2012, p. 442).

Companies offering services related to electronic commerce should develop mechanisms that would ensure the privacy of the customer, and the secure transfer of electronic funds through cooperation with third-party purchasing systems and implementation of Internet seals (Kerkhof and Van Noort, 2010, p. 701), (Kimery and McCord, 2002, p.2). Well-known examples include Verisign, Trustwave. According to Greatorex and Mitchell (1994, p. 669) “Risk relievers are used to explain consumer’s behavior”, and can be used to provide safety, certainty and confidence, and boost shoppers’ trust towards internet retailers.

Layton (2005) describes the POST™ framework by analyzing the six keys determinants of human’s behavior: motivation, attitude, beliefs, personality, morals, and ethics. He also examines the beliefs, morals and ethics which determine human’s thought and actions. Therefore, the implementation of the POST™ framework can reduce risk perception, which relies on the human psychology.

4. A framework for explanatory research

An explanatory research approach should be adopted in order to identify cause-and-effect relationships between e-quality and customers’ loyalty, satisfaction and trust. This approach could be accomplished through field research based on structured questionnaires, and utilization of the E-S-QUAL model (Parasuraman et al., 2005). E-S-QUAL is a multiple-item general scale for measuring electronic service quality. E-S-QUAL is proposed to be chosen because it focuses on measuring the quality of the core service attributes rather than the technical quality of web sites measured by other models.

Santouridis et al., in their research (Santouridis et al., 2012), contribute to the examination of the four-factor structure of E-S-QUAL’s applicability in different settings and to the verification of its factor structure. Moreover, their study provides useful insight into the effect of electronic service quality on customer perceived value and loyalty (Santouridis and Trivelas, 2009, 2010). Santouridis et al. (2012) verified E-S-QUAL factor’s structure and confirmed the applicability of this scale to measuring internet service quality of online shops. Santouridis (2009)
conducted a survey on Greek customers of Internet shops to investigate the impact of e-service quality on satisfaction and trust. The results showed that e-quality is a major predictor of customer satisfaction.

Principal Component Analysis (PCA) could be conducted to identify latent factors within the E-S-QUAL dimensions. The extraction of distinct principal components could be corresponded to: ease of use, customization and assurance, e-scape - the website aesthetics, colors, layouts, etc.- and responsiveness.

In order to determine the extent to which each E-S-QUAL dimension contributes to e-loyalty, e-satisfaction and e-trust, multiple regressions could be conducted. As independent variables could be used the following ones: gender, age, level of education, income, IT skills, ease of Use, e-scape & responsiveness, customization & assurance.

5. Discussion and conclusion

The concept of trust is of great importance for the expansion of e-commerce. Therefore, acquisition of buyer’s trust is the key driver for e-companies. There are factors that strengthen trust and influence the way it can be built. Negative factors coexist with the positive ones and they are considered as risks for the e-shops. Risks are deterrent factors that bother the buyer from online shopping. E-shops should examine and understand these negative factors, and develop strategies to reduce the possibility of risks.

The acquisition of trust and the reduction of the perceived risks for e-business can be based on the implementation of several strategic measures. Therefore, e-companies should develop strategies to protect their assets against potential risks providing safety. Security measures are linked to control, authentication system and alternative payments. When customers have control on their personal information they feel more safe and confident, since they conclude that increased security and privacy measures have been taken. Moreover, a company using authentication and authorization systems can safeguard its information assets from unauthorized access (e.g. cracking). Thereby shopper’s sensitive information (i.e. credit card’s numbers, ids, passwords) is ensured and hence customers’ confidence is boosted. Assuming that we plan to run an e-company, several key questions are raised:

• What would be our major concern?
• What would we have to do in order to accomplish our vision with least possible loss?
• What would be the privacy and security issues that should be taken?
• To what community we address to (involving POST™ framework)?

First and foremost, the vision should be determined and be accepted in short term, and afterwards, the activities have to be expanded (long term goal). Therefore, in order to accomplish this goal, an e-company should first gain the trust of potential shopper. However, a critical question is: In which target group “this” buyer belongs to? By determining the age, sex, educational and income level, the e-company should assess e-buyer’s motivation, personality, attitude, morals, ethics, and beliefs. This information will be used to determine e-buyer’s profile and help the company to develop an effective strategy plan. Additionally, in order to fulfil the vision an e-company should estimate what the perceived risks (“the fears of the buyers”) are and accordingly which strategy measures have to take in order to curb them.

The major factor that bothers customers to buy via Internet is the fear of unknown. Due to the fact that the online commerce is conducted in a virtual environment the managers of an e-company should employ privacy and security measures in order to ensure company’s assets and shopper’s sensitive information from unauthorized attack e.g. hacking, phishing. An effective way to protect the website (e-shop platform) from unauthorized access (cracking) is to put in place a combination of authorization models. In addition, the partnership with a third party assurance is extremely important as it denotes that the e-company complies with security measures ensuring e-shopper’s privacy. Furthermore, a crucial strategic issue that verifies e-company’s credibility and boost e-buyer’s trust is the display of policy regarding privacy, refunds, shipping etc., logos of payment methods, and communication facilities (e.g. email form, mail address, telephone) with e-retailer.

Moreover, an e-company should give to the customers the opportunity to assess its credibility. This aim can be initially accomplished by allowing samples ordering. In this way, customers can ascertain the quality of products, the performance of delivery, and the time of delivery. Subsequently, the credibility of an e-company is ensured by
sending an e-mail or sms that verify transaction dispatch after each checkout process. Customers could also feel that they have the control of their dispatched order, in case that they receive informative messages during the route.

Hence, all of these measures reinforce the adoption of online shopping, by making e-shopper to feel safe while he/she purchases (intangible) e-products. Thereby when an order is accomplished in a safety manner, the reputation of e-business is increased through the word-of-mouth process. As a result, a company benefits when its customer benefits from a fair and mutual cooperation.

In the near future, a field research will be conducted on Greek consumers in order to identify the causal relationships between electronic service quality and e-loyalty, e-satisfaction and e-trust. Data analysis will examine if the three e-quality dimensions, namely, ease of use, customization and assurance, e-scape and responsiveness have significant positive effects on e-loyalty and e-satisfaction, and e-trust.

Our future research will also focus on the examination of the influence of the organisational culture on the quality of e-services provided to the customers, and we shall try to combine the results with further studies based on strategies for improving the quality of services, and customers’ trust. Grounded in the theory of dynamic capabilities, our study will also focus on the conceptualization of a strategy for e-shops in order to provide a competitive advantage (Alaghehband and Rivard, 2010). The concept of dynamic capabilities can help us to understand how the human, technological, economic, organizational resources could evolve through time, offering competitive advantage (Konstantopoulos and Sakas, 2010).

References


