

Does Trust Matter to Develop Customer Loyalty in Online Business?

Pattarawan Prasarnphanich, Ph.D.

Department of Information Systems, City University of Hong Kong
Email: pprasarn@cityu.edu.hk

Abstract

Trust is considered the most important factor for gaining customer loyalty in online business. Since privacy and security concerns are major barriers to the Internet channel, without trust customers will not give vendors personal information, including credit card information. The study seeks to examine dimensions of trust that would significantly contribute to customer loyalty. The study examines two major dimensions of trust: credibility and benevolence. The hypothesized research model is tested using LISREL with data collected from undergraduate and graduate students who have shopping experience at Amazon.com. The results shows that when customers build their trust in a retailer, they are more likely to see value in the relationship with the retailer, want to maintain the relationship, and commit to that retailer. Subsequently, they are likely to repeat their purchases at the retailer, consider this retailer as a first choice, and recommend this retailer to their relatives and friends.

1. Introduction

It is believed that building trust in a long-term customer relationship is a critical factor for gaining customer loyalty. As an advantage, the Internet is considered a powerful means to building a long-term relationship with customers through the

employment of one-to-one marketing initiatives. To perform an effective marketing strategy over the Internet, personal information about customers needs to be revealed. Since privacy and security concerns are major barriers to the Internet channel, without trust, customers will not give vendors personal information, including credit card information. Once customers trust a vendor, they are more likely to consolidate their purchases and to share valuable personal information with that company.

Several researches have found strong relationships between trust and customer loyalty (e.g., [1], [2]). However, the meaning of trust referred to among the practitioners is ambiguous. Trust is a multidimensional construct and thus diverse aspects of trust should be used. A selection of appropriate aspects of trust may be different across studies. Therefore, this study also seeks to examine dimensions of trust that would significantly contribute to customer loyalty.

The two major research questions are:

1. How and why customers' perceptions of trust in Internet retailers lead to customer loyalty?
2. What dimensions of trust are more important in influencing customer loyalty?

2. Conceptual Framework

The study is primarily grounded on customer relationship literature. Trust and commitment are the two major constructs of relationship marketing and ultimately lead to customer loyalty.

2.1 Trust

Trust is the willingness to rely on an exchange partner in whom one has confidence [3]. Trust consists of two distinct dimensions: credibility and benevolence [4]. Credibility refers to the extent to which the buyer or supplier believes that the other party has the required expertise to perform the job effectively and reliably (i.e., an ability of the partner to deliver as promised) [4]. Benevolence refers to the extent to which the buyer is genuinely interested in the other partner's welfare and motives to seek joint gain. This benevolence dimension is consistent with the issue of privacy and security concerns that vendors do their best efforts to protect customers' personal information and prevent any personal losses due to their interaction with the vendors.

The benevolence dimension of trust can exist even when the objective credibility of vendors is less than perfect [4]. For example, customers might feel that the vendor is still concerned with their personal welfare, even though the vendor's services are somewhat unreliable.

2.2 Commitment

In this study, commitment is defined as "an enduring desire to maintain a valued relationship" [5]. Commitment consists of three components: (1) an instrumental component where one party takes some actions to demonstrate commitment; (2) an attitudinal component which signifies an enduring intention by the parties to develop

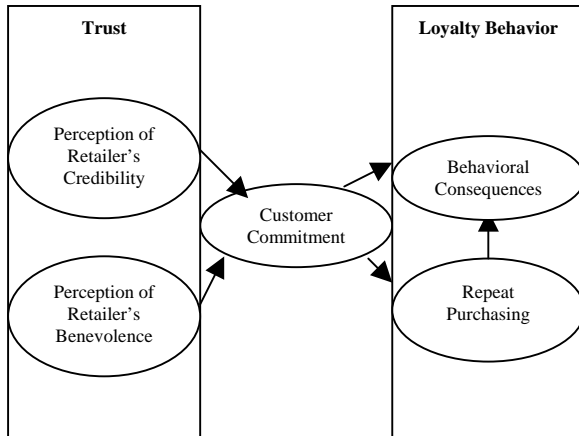
and maintain the relationship; and (3) a temporal component suggesting commitment in something only over the long term and in a consistent manner [6]. Commitment generally does not change often and people are unlikely to be committed to something they do not value [5].

2.3 Customer Loyalty

There are two major approaches for assessing loyalty: the behavioral approach and the cognitive approach. The traditional behavioral approach includes such measures as large proportion of purchase (e.g., [7]), purchase sequence (e.g., [8]), and probability of purchase (e.g., [9]). The customer loyalty construct in this study refers to two components: repurchase behavior and loyalty consequences [10]. Attitude toward a brand is a determinant of repeat purchases, which, in turn, results in several loyalty consequences (positive word-of-mouth, search motivation, and resistance to counter-persuasion).

2.4 Relationships between Trust, Commitment, and Customer Loyalty

Figure 1 depicts the proposed research model underlying hypothesized relationships among trust, commitment, and customer loyalty. Morgan and Hunt [2] suggest that trust is the determinant of commitment, and commitment lead directly to cooperative behaviors. The enduring desire to maintain a valued relationship should, in turn, impact loyalty [1]. Since commitment entails vulnerability and risk of opportunistic behaviors in a relationship, customers will seek only trustworthy vendors. The customer's perceptions of trust in retailers are expected to increase the likelihood of customer commitment to a relationship with the retailers, because the trust increases the extent to which the retailers engage in risky exchanges [5].



Note: All relationships are positive.

Figure 1 Research Model

The two components of trust are hypothesized to reveal different degrees of influence on customer commitment. Thus, the study will also explore whether the credibility or benevolence type of trust is more influential on customer loyalty in the Internet store. Commitment defined in this study reflects an attitudinal aspect of customer loyalty [2]. An individual is loyal when he or she develops a degree of commitment to a brand and commitment is a factor distinguishing between customer loyalty and other forms of repeat purchasing behavior [11]. The attitude toward brand is a key determinant of customer loyalty behaviors in terms of repeat purchases and behavioral consequences of customer loyalty. The repeat purchases, in turn, affect the loyalty consequences such that customers who have good attitudes toward and repeat their purchases at a retailer are more likely to say positive things about the retailer, recommend this retailer to others, reduce information search about alternative brands, resist persuasion by other brands and make efforts to purchase at this retailer.

3. Method

3.1 Sample

Surveys were distributed to undergraduate and graduate students. The students were asked to complete questionnaire questions based on their shopping experience at Amazon.com. Amazon.com, a successful online bookstore, was particularly selected as a subject for the study since it is a successful Internet store, well-regarded by consumers, and is a good example of a retailer that has successfully adopted one-to-one marketing strategies. The use of a single store for this study is intended to eliminate potential underlying differences across Internet stores, such as product types and level of reputation, which might mask or overstate the hypothesized relationships and differences in this study.

189 students were surveyed. 83 responses were usable and used to conduct the data analysis. Of the total respondents, 61% were male and 39% were female. 42 percent of respondents were undergraduate students and 58 percent were graduate students. Almost all students had Internet access at home (96% of all respondents).

3.2 Measures

Most of the measurement scales consist of 7-point Likert questions and most had been used in previous research. Trust scales for both credibility and benevolence were adapted from Ganesan [4] and Parasuraman, Zeithaml, and Berry [12]. Commitment measures were borrowed from Bettencourt [13] and Garbarino and Johnson [14]. The repeat purchasing behavior items were borrowed from Macintosh and Lockshin [15] and also developed specifically for this study. The measures of behavioral consequences of the customer loyalty construct were adapted from Bettencourt

[13] and Zeithaml, Berry, and Parasuraman [16].

3.3 Analytical Procedures

The data were analyzed using LISREL, a software package based on the structural equation modeling technique. The structural equation modeling (SEM) approach was used to assess the proposed causal model. The measurement model was first assessed and, if necessary, respecified to ensure the best quality of measurement with respect to psychometric properties and overall model fit. The overall model fit was assessed based on several goodness of fit measures.

4. Results

4.1 Measurement Model

The full model with all constructs and all measures was assessed and modified. The items that exhibited very low loadings and substantially weakened the goodness of fit level were dropped. The best sets of measures for each construct are shown in Table 1 and the factor loadings, corresponding standard errors, and t-values of each measure are shown in Table 2. All loadings exceeded 0.5 and the t-value for each measure was significant at 0.05. The final measurement model exhibited a satisfactory level of fit ($\chi^2 = 86.37$, $df = 80$, $p\text{-value} = 0.29$, $\chi^2/df = 1.08$, $RMSR = 0.06$, $GFI = 0.88$, $AGFI = 0.82$, $NFI = 0.86$, and $CFI = 0.98$).

With respect to the psychometric properties of the constructs/measures, convergent validity and discriminant validity of the measurement model were assessed. The reliability of individual measures/items, the reliability of the constructs (composite reliability), and the average variance extracted were used to measure for convergent validity [17]. Table 2

summarizes the three measures of the convergent validity for the model. Only three items (Cred3, Cred4, and RP1) had item reliability below 0.5. The composite reliability and average variance extracted exceeded the suggested value of 0.6 for all constructs. For the discriminant validity, Table 3 shows a comparison between the square root of the average variance extracted from the constructs and the correlations among constructs. The results showed the evidence of discriminant validity. Thus, the measurement model exhibited an acceptable level of psychometric properties.

Table 1 Measurement Model

	<u>Factor</u> <u>Loading</u>	<u>Standard</u> <u>Error</u>	<u>T-Value</u>
Perception of Retailer's Credibility			
Cred1	0.72	0.10	6.92
Cred2	0.87	0.10	8.88
Cred3	0.59	0.11	5.48
Cred4	0.63	0.11	5.85
Perception of Retailer's Benevolence			
Benev1	0.73	0.10	7.31
Benev2	0.79	0.10	8.09
Benev3	0.82	0.10	8.65
Benev4	0.72	0.10	7.19
Customer Commitment			
Comm1	0.81	0.10	8.46
Comm2	0.93	0.09	10.26
Repeat Purchasing			
RP1	0.65	0.14	4.59
RP2	0.72	0.15	4.87
Behavioral Consequences			
BC1	0.93	0.09	10.46
BC2	0.77	0.10	8.00
BC3	0.76	0.10	7.77

4.2 Structural Model

The structural model was used to examine the hypothesized relationships among constructs. According to Figure 2, the model results showed that the hypothesized relationships were supported, except for the positive relationship between customers' perceptions of credibility in a retailer and customer commitment. Additionally, customer's perceptions of credibility and customer's perceptions of benevolence in a retailer are positively and significantly correlated.

The hypothesized positive relationship between customers' perceptions of benevolence in a retailer and customer commitment is significant, whereas the positive relationship between customers' perceptions of credibility in a retailer and customer commitment is nonsignificant. In addition, the χ^2 difference resulting from a comparison of the model shown in Figure 2, with the model constraining the paths from perception of retailer's credibility to customer commitment and from perception of retailer's benevolence to customer commitment to be equal, was 10.73 with 1 degree of freedom ($p < 0.01$). The significant difference provides evidence that the positive relationship between customers' perceptions of benevolence in a retailer and customer commitment is significantly different from and stronger than the positive relationship between customers' perceptions of credibility in a retailer and customer commitment.

The goodness of fit indices of the structural model in Figure 2 suggests adequate fit. The χ^2 fit statistic is 99.57 with 109 degrees of freedom ($p = 0.73$). The χ^2/df ratio is 0.91. The RMSR is 0.07, the GFI is 0.87, the AGFI is 0.86, the NFI is 0.85, and the CFI is 1.00.

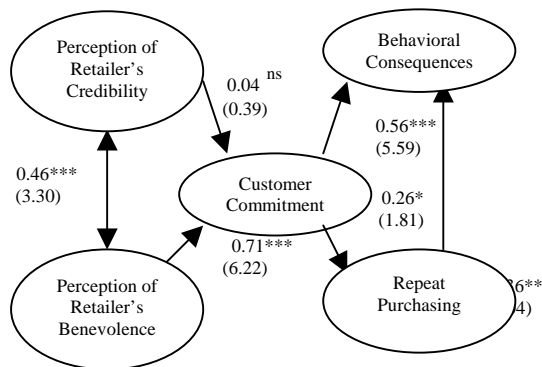
Table 2 Test of Convergent Validity

	Item	Composite	Average
	Reliability	Reliability	Variance
			Extracted
Perception of Retailer's Credibility		0.80	0.51
Cred1	0.52		
Cred2	0.76		
Cred3	0.35		
Cred4	0.40		
Perception of Retailer's Benevolence		0.85	0.59
Benev1	0.53		
Benev2	0.62		
Benev3	0.67		
Benev4	0.52		
Customer Commitment		0.86	0.76
Comm1	0.66		
Comm2	0.86		
Repeat Purchasing		0.64	0.47
RP1	0.42		
RP2	0.52		
Behavioral Consequences		0.86	0.68
BC1	0.86		
BC2	0.59		
BC3	0.58		

Table 3 Test of Discriminant Validity

	(1)	(2)	(3)	(4)	(5)
Credibility (1)	0.71				
Benevolence (2)	0.46	0.77			
Commitment (3)	0.35	0.74	0.87		
Repeat Purchasing (4)	0.25	0.24	0.25	0.69	
Behavioral Consequences (4)	0.42	0.42	0.66	0.51	0.82

Note: Diagonal values are the square root of the average variance extracted between constructs and their measurement items. Off-diagonal values are the correlations among constructs. Diagonal values should be greater than off-diagonal values to exhibit discriminant validity.



Note: Path coefficients with t-values in parentheses
 * p<0.05, ** p<0.01, *** p<0.001, ns indicates nonsignificant at 0.05

Figure 2 Results

5. Discussion

The study provides several interesting implications. Apparently, the benevolence dimension of customer trust in an Internet retailer plays a crucial role in determining customer commitment and customer loyalty, while the credibility dimension of customer trust is not significant in the Internet store.

The result supports the classic issue of privacy and security concerns over the Internet channel. To successfully operate in Internet commerce, personal information about customers, including credit card information, needs to be revealed. Customers would be reluctant to give such information to vendors if they feel that vendors are not genuinely concerned about customers' personal interests and welfare. Given the vulnerability of Internet purchases, purchasing at an Internet retailer is considered a risk-taking behavior; therefore, without a benevolent trust in the retailer, customers would not become loyal.

The impact of the credibility aspect of trust on customer commitment and customer loyalty is found to be insignificant in this

study. The possible explanation of this finding is that the credibility of services vendors provide to customers is considered as a standard for all types of retailers. Reliability of services and delivering services as promised seem to be major expectation of customers for either Internet retailers or traditional 'brick and mortar' stores. Customers who perceive vendors providing reliable and credible services but perceive vendors being not concerned about their welfare are unlikely to be loyal. Both loyal and non-loyal customers could perceive a high level of credibility of a retailer. The perceived benevolence of a retailer is the sole factor distinguishing loyal customers from non-loyal customers.

The relationships between customer commitment, repeat purchasing behavior, and behavioral consequences are confirmed as expected. According to the proposed model, customer commitment reflects a cognitive aspect of loyalty, while repeat purchasing behavior and behavioral consequences of loyalty reflect behavioral aspect of loyalty. Customers tend to develop a favorable attitude toward a retailer, and subsequently repeat their purchases at this retailer, make efforts to have this retailer as a first choice, and generate positive word-of-mouth by recommending these retailers to others.

6. References

- [1] Chow, S. and Holden, R. (1997), "Toward An Understanding of Loyalty: The Moderating Role of Trust," *Journal of Managerial Issues* (9:3), Fall, pp. 275-298.
- [2] Morgan, R.M. and Hunt, S.D. (1994), "The Commitment-Trust Theory of Relationship Marketing," *Journal of Marketing* (58), July, pp. 20-38.

- [3] Moorman, C., Deshpandé, R., and Zaltman, G. (1993), "Factors Affecting Trust in Market Relationships," *Journal of Marketing* (57), January, pp. 81-101.
- [4] Ganesan, S. (1994), "Determinants of Long-Term Orientation in Buyer-Seller Relationships," *Journal of Marketing* (58), April, pp. 1-19.
- [5] Moorman, C., Zaltman, G., and Deshpandé, R. (1992), "Relationships Between Providers and Users of Market Research: The Dynamics of Trust Within and Between Orgnaizaitons," *Journal of Marketing Research* (29), August, pp. 314-328.
- [6] Gundlach, G.T., Achrol, R.S., and Mentzer, J.T. (1995), "The Structure of Commitment in Exchange," *Journal of Marketing* (59), January, pp. 78-92.
- [7] Cunningham, S.M. (1996), "Brand Loyalty—What, Where, How Much?" *Harvard Business Review* (34), pp. 116-128.
- [8] Kahn, B.E., Kalwani, M.U., and Morrison, D.G. (1986), "Measuring Variety Seeking and Reinforcement Behaviors Using Panel Data," *Journal of Marketing Research* (23), May, pp. 89-100.
- [9] Massey, W.F., Montgomery, D.B., and Morrison, D.G. (1970), *Stochastic Models of Buyer Behavior*, MIT Press, Cambridge.
- [10] Dick, A.S. and Basu, K. (1994), "Customer Loyalty: Toward an Integrated Conceptual Framework," *Journal of the Academy of Marketing Science* (22:2), pp. 99-113.
- [11] Jacoby, J. and Kyner, D.B. (1973), "Brand Loyalty Vs. Repeat Purchasing Behavior," *Journal of Marketing Research* (10), February, pp. 1-9.
- [12] Parasuraman, A., Zeithaml, V.A., and Berry, L.L. (1991), "Refinement and Reassessment of the SERVQUAL Scale," *Journal of Retailing* (67), Winter, pp. 420-450.
- [13] Bettencourt, L.A.(1997), "Customer Voluntary Performance: Customers as Partners in Service Delivery," *Journal of Retailing* (73:3), pp. 383-406.
- [14] Garbarino, E. and Johnson, M.S. (1999), "The Different Roles of Satisfaction, Trust, and Commitment in Customer Relationships," *Journal of Marketing* (63), April, 70-87.
- [15] Macintosh, G. and Lockshin, L.S. (1997), "Retail Relationships and Store Loyalty: A Multi Level Perspective," *International Journal of Research in Marketing* (14), pp. 487-497.
- [16] Zeithaml, V.A., Berry, L.L., and Parasuraman, (1996), A. "The Behavioral Consequences of Service Quality," *Journal of Marketing* (60:2), April, pp. 31-46.
- [17] Bagozzi, R.P. and Yi, Y. (1988), "On the Evaluation of Structural Equation Models," *Journal of the Academy of Marketing Science* (16:1), Spring, pp. 74-94.