

# Towards Understanding the Role of Trust in Electronic Business

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*Abstract:* - Electronic Business is based on trust between the seller and the buyer. Trust is not an issue if seller and buyer know each other, and they have an existing business relationship. However, when there are no earlier experiences, when the customer is not familiar with the vendor or the products and services this can be challenging. If there is no knowledge whether the vendor is trustworthy, the buyer is trying to find different kinds of cues and experiences to make sure the decisions are right. Here we look at how these cues could be made available, by adding value to both vendor and buyer. Ultimately, better information increases trust, and helps in developing successful business.

*Key-Words:* - Electronic business, trust, trustworthiness

## 1 Introduction

Internet is increasingly important for business activities. It has become popular to use Internet for finding products and services, and potential vendors for them. Internet makes it possible to find and compare different products and services. It allows the buyer to browse alternative solutions so that whatever the needs should be the buyer can reach to a decision. Internet has become the ultimate source of information on products and services.

Internet has had a huge impact on how business is being made. Vendors and entrepreneurs need to have visibility in internet, and the activities they do in different sites and channels have a critical impact on business activities. One key element of successful business is vendors trustworthiness in the eyes of the potential customer. Therefore, it is important to understand the ingredients of trust between vendor and customer, in an environment where they do not necessarily know each other's, the products or services, and may be in a situation when every step of the business transaction is being done through computers. It may be the case that vendor and buyer do not meet each other in real life at all, everything takes place through electronic channels and platforms.

In this paper we study the role of trust in electronic business. In this environment trust has a critical role in business transactions. Therefore, businesses need to pay attention to trust and find ways that increase trust between vendor and customer.

## 2 Role of Trust

Trust is a key element in all business transactions. This is especially true when business takes places in electronic environment, taking advantage of internet. In internet the trust is the key, it dictates whether the consumer will make purchases or not [1]. Trust and trustworthiness are further challenged by risks associated with internet actions, for example potential misuse of customers payment data [2], [3].

Today businesses rely on internet as a connecting channel between the vendor and customers, it is important to understand how significant role trust has in this environment. After all, it may that the buyer is not familiar with the company, its products and services. In this case the customer needs to trust that the vendor is legitimate and will deliver as promised. Therefore, business actions are not only about trust between customers and vendors. Confidence is also needed to see the electronic environment as a trustworthy platform for communication, commerce and delivery of the purchased items [4], [3].

## 2.1 Importance of reviews

It can be argued that electronic business is based on the idea that the customer is confident when doing business, here meaning that he trusts that transactions which take place in the digital environment lead to desired results, and whatever the vendor promises about the product or service can be trusted [1].

Let us look at electronic business from customers viewpoint. As a customer it is important to be careful and stay alert, all business offerings and services should not be trusted blindly. Therefore, customers often try to find different cues and experiences related to vendor and its products, to make sure the decisions are right. These cues, hints and stories can come from other customers who share their experiences. The comments and reviews that are coming from real customers, not from vendors marketing department are considered trustworthy, and have a significant role in whether the buyer makes the decision to buy, and from this vendor. It is worth noticing, that these same sources are increasingly used in judging also traditional purchases - which products and services, and what vendors are trustworthy.

Internet is a powerful media, and sharing stories and experiences is easy – especially if the vendor has provided this type of feature on his website, Facebook site or other channels. On the other hand, if the vendor has not provided space for giving feedback from services and products, it is likely that reviews will be shared elsewhere. Especially this, commenting and giving feedback in different forums, portals and systems that are not controlled by the vendor are hard to manage. In many cases vendor does not even know in which platforms, systems and channels there is discussion or feedback – and therefore answering feedback is not a straightforward task.

In general, trust can be divided into two elements, situational normality and structural assurance [5]. The first element, situational normality contains idea or belief that transactions and processes will lead to expected outcomes, at least in most cases. The other element, structural assurance is about the idea that business environments include protective structures which have been developed to ensure that transactions can be made safely. Consequently, the business environment is built on structures and processes that are there to ensure the trustworthiness of the environment, and guides transactions so that they proceed to desired outcomes [3].

Trust is also affected by earlier experiences, things that have happened earlier may happen again.

As an example, if vendor has provided customer excellent service earlier, it is likely and expected that this will happen also in future business transactions [6], [3]. Koehn [7] refers to this with the terms calculative and knowledge-based trust. The first type of trust is explained by customers tendency to look at vendors history of keeping promises. The other type of trust, knowledge-based trust is developing when parties getting are familiar and start interacting more frequently. To conclude, vendors reliability is based on customer's expectations of vendor's honesty, behavior and ability to fulfill promises [3].

## 3 Customer loyalty

Internet is a challenging environment for electronic business. It easy for the buyer to access and browse information on products and services. For example, finding the best price for a product is easy, especially when there are various services designed for this kind of price evaluation. Clearly, vendors are challenged by continuous reviews, ratings and discussions to provide high-quality services and products to the marketplace [8], [9]. Therefore, it can be asked what vendors could to keep their customers?

Internet has made it challenging for vendors to keep their customers. The ease of searching for alternative providers for a product, looking for better prices and services affects customer loyalty. It is noteworthy, that buyers are not necessarily doing their decision on price alone. Instead, the role of customer satisfaction should be understood. It has been found that customer satisfaction is one of the most important determinants of customer loyalty [10], [11], [12]. Shankar et al. [13] noticed a relationship between customer satisfaction and loyalty, they tend to strengthen and reinforce each other. Despite this notion, the bond between customer satisfaction and loyalty is complex [10], [14]. It may be that customers are happy with the products, but they may not be loyal to any specific vendor.

Generally, customer satisfaction tends to increase customer loyalty, and higher level of customer satisfaction also reduces buyer's willingness to look for other vendors [15], [16], [17]. The concept of switching costs can further help in understanding customer loyalty in electronic age [13], [18]. In an environment where customers are continuously looking for best price, for example, may vendor wish to lock existing customers and create switching barriers to keep customers. However, customer satisfaction and switching costs are connected, and

may both impact customer retention [19]. Therefore, if the customer feels that switching costs are increasing the intention to stay as a customer may decrease. As an example, Jones et al. [20] found evidence on negative connection when surveying different samples of bank customers and hairstylist clients. In both cases development of switching costs and barriers decrease customers intentions to continue as a customer. This highlights the risks of creating switching barriers. They can have negative impact on business if customers feel being trapped.

On the other hand, Burnham et al. [21] studied clients of a credit card company but found no support for the negative interaction between switching costs and customer loyalty. However, there is also evidence that vendors switching barriers and mechanisms can increase customer retention when customer satisfaction is low [20], [18]. To summarize, there can be significant variations in switching behavior and switching costs and their impact vary among fields and industries [22].

#### 4 Discussion

Trust has always been an important element business. This is the case also in electronic business, in business activities between companies and buyers. Here the platform for selling and buying products and services is Internet. In this electronic environment the transactions, which are about flow of information, trust is a critical element of the business model [23]. For example, buyers need to trust that the product arrives as promised once the payment has been completed.

In this article we underline the importance of trust between the vendor and buyer. In an environment where transactions happen increasingly online, without physical contact between vendor and buyer trust becomes a key element for successful business. In a typical purchase buyer uses internet for gathering information on products and services, lists possible vendors to get information necessary for a buying decision. Here any comments, reviews and experiences from other customers have a critical role. Evaluation of vendors is an important part of customers decision making process, it is based on buyer's perceptions of vendor's honesty and ability to perform as expected [3]. This is also referred to as trustworthiness.

Internet has changed the way business, selling and buying products and services takes place. The challenge that has been studied here is trust. Trust between vendor and buyer is in a key role. Businesses should have an active role when

connecting and interfacing with the buyers, this should be visible in web pages and in social media. Managing and developing trust is a challenge, but increasingly important for successful business.

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