CHAPTER 2

CONCEPTUAL FRAMEWORK

2.1 Definition and Role of Trust
2.2 Characteristics of trust
2.3 Online and Offline Trust
2.4 Social Learning Theory Perspective on Trust building
2.5 Model for Consumer’s Trust in Internet Shopping
2.6 Concept of Perceived Risk
2.7 Perceived risk debates and definitions
2.8 Risk, involvement and trust
2.9 Types of Perceived Risks
2.10 Perceived risk applications
2.1 Definition and Role of Trust

With the recent widespread popularity of the Internet, business-to-consumer (B2C) ecommerce has quickly become a common medium for businesses to generate revenue. Already, B2C e-commerce has grown to an estimated US$26 billion in sales for 2000. However, e-commerce accounts for less than 1% of retail sales. Even if projections of continued growth in e-commerce revenue are accurate, it appears that many consumers have not accepted e-commerce as a purchasing channel. Lack of ‘touch-feel-try’ experience i.e. need to touch and feel the product, non-availability of significant discounts and waiting for delivery i.e. untimely delivery are common in E-tailing. ¹ Research has shown that insufficient trust represents a key reason for consumers to avoid purchasing products over the Internet².

Under the current challenging economic conditions managers must allocate scarce marketing resources efficiently across all channels and within the Internet channel to develop sustainable customer relationships. To create long-term customer relationships, firms need to build customer trust³. To achieve their objective of customer trust, companies must understand the specific environment of the electronic marketplace, where the barriers to customers switching are lower compared with the traditional economy and vendors are more vulnerable to customer defection. Customer trust is particularly important in the online context because customers increasingly rely on the Internet for information and purchases and can be more loyal online⁴. To formulate a successful Internet marketing strategy, companies need a deeper understanding of how trust is developed and how it affects consumer behavioral intent in the online context.

Businesses competing in the internet economy are turning their attention and resources towards increasing the trust of their customers and users. Trust has a central role, especially in the area of e-commerce, it may be stated that that "price does not rule the web, trust does". But even though it is not only the buyer who decides if he is willing to shop online, but also the seller who provides the
opportunity. The high prominence of trust, which is reflected in a multitude of research articles dealing with trust, both offline and online is not surprising. As highlighted by Shapiro, specialization and social division of labor, which are the keystones of any modern economy, lead to a wide variety of agency relationships, which people are obliged to enter each day, starting from taking dirty clothes to the dry cleaner and reading information collected by reporters and presented in newspapers, to using money and other symbolic forms of wealth. Even though it is not evident if trust is “perhaps the most efficient mechanism for governing economic transactions” or “has supernormal costs associated with it”, it is an important parameter that avoids the complete paralysis of any society, by making people enter necessary agency relationships.

2.2 Characteristics of trust

Trust has three characteristics: Competence, Benevolence and Integrity [Mayer, Davis & Schoorman, 1995]. Competence means that I, the trustee, believe that the trustee has the ability or power to do for me what I need done. Benevolence is the extent to which I believe that the trustee wants to do good for me, aside from any eco-centric profit motive. Integrity means that I believe that the trustee makes good faith agreements, tells the truth, acts ethnically and fulfills promises. Trust is critical to the study of online business because it has a significant effect on consumer behavior. Adapting the definition of trust to the context of Internet shopping, we define trust at the belief that an Internet shopper has in an Internet merchant and is willing to engage in an Internet shopping transaction, even with the possibility of loss, based on the expectation that the merchant will engage in generally acceptable practices, and will be able to deliver the promised products or services. The concept of trusting beliefs means that a potential online shopper believes that the online store is benevolent, competent, honest or predictable.

The question of trust may be more important in e-commerce that in off-line trade. This is because the cultivation of trust is particularly important when uncertainty and risk are inherent and contracts and warranties are often absent. The e-
commerce environment has all of these characteristics. Remote users are allowed to globally access critical files on computers in all corners of the world because the Internet was originally designed for research, not for commerce. This makes e-commerce on the Internet inherently risky from the viewpoint of security. Adding to the uncertainty of e-commerce is the fact that the parties to a transaction are not in the same place and thus cannot rely on things like physical proximity, handshakes, and body language. Nor can one party directly observe the other party’s behavior. Finally, warranties are often absent in the e-commerce environment. If the parties are in different countries, their e-commerce transaction may not be subject to the laws of either country. Because of the importance of trust in e-commerce, trust in Internet vendors is a major factor influencing the growth of e-commerce.

Trust reduces uncertainty by ruling out possible but undesirable and unfavorable future actions of other parties. In the case of e-commerce, trust would rule out such behaviors as misusing personal information and deliberately providing misleading information. Trust is essential in e-commerce because the lack of a guarantee that a supplier on the Web will refrain from undesirable behaviors exposes customers to substantial uncertainty. Trust is a prime mechanism for reducing customers’ uncertainty and will, therefore, influence their decisions to trade in the e-commerce environment.

Uncertainty represents major elements of consumer’s perceived risk involved in a buying decision process. The more uncertainty consumers have about making purchase decisions without sensory product inspection, the higher their perceived risk. Online shopping does not permit sensory product inspection and occurs in a non-store milieu. Regardless of buying context, consumers exhibit uncertainty regarding the match between their choices of products or brands and their buying goals, as well as the unfavorable consequences they might face if a mismatch occurs. Also, online shopping can be considered similar to ordering products by mail or telephone, as these shopping modes contain invisible
threats and require consumers to provide their personal and financial information to the unseen party.

2.3 Online and Offline Trust

In the anonymous electronic environment, however, achieving trust in the beginning of a relationship is more difficult than in the traditional business world because the customer has much less information available to assess the trustworthiness of a supplier. In addition to the lack of interpersonal interaction between buyer and seller, a potential customer receives no guidance on assessing the economic viability of a supplier. In the traditional business world a customer can draw conclusions from the location, size and design of a store, whereas in the electronic business such clues are largely missing. Moreover in most online transactions the customer carries the risk of upfront payment, while in the offline world an immediate exchange of payment and goods or services is the norm. Therefore online customers are not only less informed about their suppliers than offline customers, they also carry the fulfillment risk.

In recent years, researchers have begun to explore similarities and differences between shopping for products and services in online versus traditional retail environments. Unlike traditional retail shopping, parties in an online encounter have no direct contact – in an environment with few social cues. When shopping online, the social proximity and face-to-face interaction with salespeople and other shoppers are replaced by a complex socio-technical system that is not well understood by the consumer. Offline trust that involves the offline activities of the firm (such as direct sales, channel sales, and other communication and transactions) and its relationships with its customers and other stakeholders.

Online trust that involves the firm’s business activities in the electronic medium, and in particular, its Web site. Although online trust is similar to offline trust in many ways, there are some important distinctions. In offline trust, the object of trust is typically a human or an entity (organization). In online trust, typically, the
technology (mainly the Internet) itself is a proper object of trust. In a sense, a firm’s Web site is its salesperson that needs to build trust with her/his customers. In many ways, shopping is a communication process. Shoppers gain information in a variety of forms, and make decisions as to whether a purchase is desirable. In recent years, with the introduction of e-shopping, that communication process has been dramatically altered. Face-to-face communication between a customer and vendor is supplanted by an electronic medium that replaces a real salesperson.

Nowadays computers and electronic networks have revolutionized communication. Related to this phenomenon, social psychological effects of computer communication have been compared with face-to-face communication. Findings have demonstrated that an absence of nonverbal cues to “embellish meaning or social context regarding gender, age or status” potentially hampers communication efficiency. In turn, new capabilities for communicating content via the Web are created. Included in the realm of computer-mediated communication are text-based communication (email or “chat”) or more recently, intelligent agents that assist customers with online purchasing decisions. The use of agents has the benefit of providing the consumer with an element of interactivity, which replaces in some form the exchange of information as it occurs in a face-to-face environment.

Additionally, for many consumers, shopping enjoyment results from proximity to other shoppers, and some researchers suggest that consumers visit stores seeking social interactions or even social support. In a traditional store, it is further posited that shoppers derive pleasure from the sights, sounds or smells of the retail environment.

While Internet shopping might be perceived to expand the scope of information search, comparing many alternatives on prices or product features may prove overwhelming for some consumers leading to sub-optimal decision-making or
frustration. In general, when compared to a traditional store environment, online shopping: (1) lacks physical cues that help engender trust (such as investments in physical buildings, facilities and personnel); (2) is perceived as providing less control over consumer data during and following its transfer; (3) hinders physical evaluation of products, as consumers can only rely on the senses of vision and sound; and (4) possesses lower barriers to entry and exit for vendors.

There is some degree of commonality of trust elements and transfer of trust between the online and offline environments. These areas of commonality may include product quality and firm reputation. A lot of research has been done concerning factors that may influence the creation of trust, both online and offline. Due to the specific characteristics of the Internet, online marketers pay increased attention to trust-related issues in the online world.  

2.4 Social Learning Theory Perspective on Trust building

Rotter’s SLT explains why a person chooses a certain course of action when she has a number of possible alternatives available. There are four basic concepts in Rotter’s theory:

1. Behavior potential – is the likelihood for any given behavior to occur.
2. Expectancy – considered the central concept of SLT, is the probability that a particular reinforcement will occur as a function of a specific behavior in a particular situation.
3. Reinforcement value - is the degree of preference for any reinforcement, if the probability of their occurring were all equal.
4. Psychological situation - emphasizes that all the above factors are subjective perceptions.

Rotter goes on to treat behavior potential as a function of expectancy and reward (i.e., reinforcement value). Although Rotter subsequently applies this theory to trust propensity, and regard it as a type of general expectancy resulting
from experiences in interpersonal relationships, further application of this theory in the trust domain has not been explored. Thus, we extend SLT to study the trust relationship between a buyer and a seller. In doing so, we consider the behavior potential as either to-buy or not-to-buy. The reward is the outcome of the purchase. The corresponding expectancy can be regarded as the perceived trustworthiness of the seller in fulfilling its obligations (e.g., on time delivery).

Trust building process is essentially an expectancy formation process from SLT perspective. While Rotter’s SLT does not propose any specific mechanism of expectancy learning, Bandura’s SLT addresses this issue. In Bandura’s SLT, behavior and its associated expectation can be learned through direct experience and/or modeling. Learning through direct experience requires the subject to be personally involved in the activity, and realize the consequences of her response, successful or punitive. Modeling is the process of learning by observing others responding to an environment and experiencing certain consequence. Modeling includes both vicarious learning (i.e., observing others) and symbolic learning (e.g. reading printed material). With respect to people’s learning behavior, Bandura highlights that: “By observing the different outcomes of their action, they develop hypotheses about which responses are most appropriate in which settings. This acquired information then serves as a guide for future action. Performance accomplishments provides the most dependable source of efficacy expectations because they are based on one’s own personal experiences. Successes raise mastery expectations; repeated failures lower them, especially if the mishaps occur early in the course of events. According to social learning theory, modeling influences produce learning principally through their informative function. Many expectations are derived from vicarious experience. Seeing others perform threatening activities without adverse consequences can create expectations in observers that they too will eventually succeed if they intensify and persist in their efforts.
SLT is in fact not the only theory that proposes the dichotomy of direct and indirect learning. In referring to the social exchange theory, Blau comments that “these expectations of social rewards are based on the past social experiences of individuals and on the reference standards they have acquired, partly as the result of the benefits they themselves have obtained in the past and partly as the result of learning what benefits others in comparable situations obtain.” Relating to trust building, the trust transference might be regarded as a type of learning by modeling. Besides direct experience and modeling, learning can also occur from similar experiences. Rotter posits that “in social learning theory expectancy in each situation is determined not only by specific experiences in that situation but also, to some varying degree, by experiences in other situations that the individual perceives as similar”. Experience with a specific situation produces specific expectancy, and the experiences with similar situations collectively form the general expectancy. Both specific expectancy and general expectancy can affect behavior. As Rotter highlights, “in social learning theory, expectancy is a function of a specific expectancy, and a generalized expectancy resulting from the generalization from related experience.”

The two aspects of the directness of experience and the specificity of situation are combined resulting in four combinations: direct experience in the same situation, direct experience in a similar situation, modeling in the same situation, and modeling in a similar situation. These four learning processes constitute the SLT-based framework which can be used to explain trust building. The learning outcome occurring from the four processes can be of two types. First, ultimately, expectancy is formed in each process (e.g. “I know from my friend that the firm is trustworthy”). The expectancies from individual processes collectively produce an aggregated expectancy. Second, some detailed beliefs about the situation (e.g. service quality, store environment etc.), which Rotter termed cognition, can be learned. Such beliefs of situational variables constitute what Rotter calls the psychological situation (Rotter 1980b). These two types of learning outcomes are related. The learned simple cognitions are usually determinants of a more
general expectancy. “The simple cognitions regarding the properties of objects
determine, in part, expectancies for behavior-reinforcement sequences”.  

Therefore, in order to understand how an overall expectancy is formed, we can
examine the related beliefs learned in these processes.

This framework can be applied to trust-building. In online trust studies,
antecedents such as website quality, service quality, familiarity with the website,
among others, have emerged as outcomes of direct experience. Reputation and
reputation-like feedback from other fellow customers represent modeling in the
same situation. Structural assurance, which is the perceived legal and
technological safeguard, can be learned in different ways. A customer might
learn about legal safeguards in the online setting from the focal firm or other
online firms, or from reports on online security and legislation. In the business to
business market, the market maker’s monitoring and accreditation of participant
firms can be regarded as a type of structural assurance.

2.5. Model for Consumer’s Trust in Internet Shopping

This model captured the most significant set of trust antecedents, derived from
different lines of previous research, and presented them as an integrated entity
that provided direction for empirical testing. 

Trustworthiness of Internet Merchant

Many researchers have studied the influence of perceived trustworthiness on
building trust. Ability, integrity, and benevolence are consistently related to trust
in most studies and thus were included in this framework. These three factors
encompass, and represent different dimensions of, the concept of reputation.
Trustworthiness of the Internet Shopping Medium

In the literature on human-computer interface and ergonomics, trust is identified as a factor affecting human choice of the use of computerized systems. Internet shopping is an activity that necessarily entails primary interactions with computer systems. In some senses, the Internet device (e.g., personal computer, WebTV) that the consumer interacts with is analogous to the salesperson in a traditional shop. The extent to which consumers trust this computerized medium is likely to affect their overall trust in Internet shopping. According to this model, human trust in an automated or computerized system depends on three factors: (1) the perceived technical competence of the system, (2) the perceived performance
level of the system, and (3) the human operator's understanding of the underlying characteristics and processes governing the system's behavior. The technical competence of a system is its ability to perform the tasks it is supposed to perform. Performance level includes such parameters as speed, reliability, and availability.

Contextual Factors
Several contextual factors are important in trust building. Most noteworthy are the issues of security and privacy, which can be protected by public key encryption (PKI) systems and the related protocols.

Other Factors
This group included factors that do not fit the preceding categories but may have a bearing on consumer's trust in internet shopping. Examples include the size of an Internet shop and sex, age, internet usage experience of the buyers.

Trust Propensity
The impact of the trust antecedents presented can be influenced by the propensity of the individual to trust. Also this trait is dependent on cultural background, personality type, and developmental experience. The propensity to trust is a personality trait that moderates the effect of trustworthiness attributes on the formation of trust. When deciding whether and how much to trust, consumers look for cues (e.g., trustworthiness attributes). Trust propensity magnifies or reduces the signals the cues provide.

2.6 Concept of Perceived Risk
Perceived risk is defined as the nature and amount of uncertainty perceived by consumers in completing a particular purchase design. Two elements, uncertainty and consequences, may play a significant roles in perceived risk. Uncertainty comes from the difficulty of identifying buying goals and matching
these goals with product or brand offerings. Uncertainty may be subjective as perceived by the consumer. For instance, consumers may uncertain about the product category that will meet and satisfy their buying goals such as "If I want to be formal and well -dressed , should I buy a black suit with skirts or pants? The consequences as another element of perceived risk may be associated with a) Functional of performance goals (e.g. Will the product work as well as I expected?). b) Psychological goals (e.g. How will it affect what others think of me and what I think of myself?). c) The means such as money, time and effort invested to achieve these goals.

Internet shopping may be associated with risks similar to other in-home shopping methods (e.g. mail order, television shopping) which come from uncertainty and consequences of buying. Risk-taking behavior becomes more important for consumer buying behavior studies of Internet shopping. Several Internet shopping studies found that people tended to perceive Internet shopping as riskier than other shopping methods (e.g. retail store shopping, print catalog) . However, research has found that for people who had an Internet shopping experience, their perceived risk of Internet shopping is reduced. Thus, risk taking or the amount of perceived risk may play important roles when shopping from the Internet.

Perceived risk may be related to the buyer’s level of confidence in making a judgment of the quality of a particular brand. The degree of uncertainty consumers feel about their ability to judge the outcome purchasing a product may be considered the inverse of the buyers confidence. Howard and Sheth found that confidence was positively related to purchase intentions and negatively related to information search. Thus, risk should be negatively related to purchase intention.
In terms of online context, perceived risk is defined as the expectation of any loss or any negative consequences as a result of online shopping. Consumers associate different types and amount of loss in context of online shopping.

### 2.7 Perceived risk debates and definitions

There are several important ideas within the literature including the relationship between objective and subjective risk, the difference between risk and uncertainty and regarding inherent and handled risk.

**Objective and subjective risk**

One of the first debates met in the literature is that on the existence of objective risk. Bauer\(^16\) strongly emphasised that he was concerned only with subjective (perceived) risk and not “real world” (objective) risk. Unlike actuaries or accountants, who may have vast amounts of accurate historical data to estimate the risk of occurrences, the average consumer has limited information, a reduced number of trials to consider and a semi-reliable memory. In many instances, consumers will be faced with a completely new purchase which they have never encountered before. This makes accurate assessment of risk almost impossible. Even if the consumer could calculate accurately the risk involved, it is not this objective risk which motivates behaviour, but the consumer’s subjective impressions of it. Any measurement of risk perception must be developed with these limitations in mind.

Stone and Winter\(^17\) argue that there is no such thing as objective risk; except perhaps for physical risk. They believe that it is impossible to have some real world or objective social, psychological, time, financial and performance risk. The consistency of their argument is broken when they accept a doctor as being an “objective” risk assessor for physical risk, but reject a financial expert as being able to give an objective assessment on financial risk.
The question of objective versus subjective risk raises the issue of a researcher's philosophical perspective. Unlike many subjects which divide researchers along the lines of how they view the world, perceived risk encourages a convergence of these divergent views. A tenet of scientific realism is that the world exists independently of it being perceived. Scientific realists, therefore, would attempt to search for the objective risk within any given situation. The relativist perceived risk researcher would not accept the existence of an objective risk, arguing that risk is relative to the perceiver and nothing can be measured beyond that. While this is a fundamental point of difference, the two schools of thought, in practice, are unified by the need to measure subjective risk, namely that risk which is perceived by the consumer and which motivates behaviour. For realists to concede that the subjective impressions of an observable phenomenon are worth conceptualizing and measuring is a major bridge of the philosophical divide. Equally relativists would seem happy to concede to use the scientific tools of the realist to analyse risk, philosophically secure in the knowledge that it is an individual and relativist perspective which is attempted to be measured.

Moreover, it can be said that objective risk must exist in theory. What is lacking is the ability to measure it. Time, money and, to some degree, physical harm can be measured by experts using specific measurement tools. Psychosocial risk is less easily calculated. Although psychometric scales, in some cases, could be devised to measure such phenomena, the risk is so complex and potentially changeable, that it is difficult to measure accurately. An objective measure of risk is therefore difficult to obtain, but that is not to say that it does not exist. All that can be easily measured is the subjective or perceived risk.

Cooper et al.\textsuperscript{18} provide evidence for the necessity to differentiate between differences in risk perception and risk attitude. They found the main differentiation between entrepreneurs and other managers was not a greater preference for risk, but an overly optimistic perception of the risks involved. Knowing which is more important is useful, since if changes in risk perception are
the driving force, then an effective remedy should be to target cognitive processes with information aimed at a more realistic risk perception; while if risk preferences are more influential then intervention needs to focus on consumers’ emotional responses.¹⁹

Risk and Uncertainty

Extending this debate leads us naturally on to the difference between risk and uncertainty. Knight’s²⁰ definition separates the concepts of risk and uncertainty. Knight proposed that “risk” has a known probability while “uncertainty” exists when knowledge of a precise probability is lacking. Even though this distinction between uncertainty and risk has been drawn in terms of distribution of outcomes, invariably marketers have allowed the two concepts to be used synonymously. This is most probably because marketers feel that consumers never really know the exact probability of an outcome. According to Knight, therefore, we should be talking about perceived uncertainty. But what if the consumer can place a subjective probability on an event? It may have no relation to the objective probability involved in the situation, but it is still a “known” probability. Does this allow marketers to use Knight’s definition of risk? Historically, the term risk has been consistently used, although this particular argument for so doing has not been articulated.

Cunningham²¹ makes the point that uncertainty or consequences may involve either a known or unknown probability. He suggests that it makes little difference, in his conceptualization, whether the consumer knows that there is an 80 per cent chance that he will make a bad purchase or whether the consumer thinks that he just “might” make a bad purchase. In addition, he argues intuitively that known probabilities are extremely rare in purchase behaviour, and that even when they are available, the consumer is unlikely to think in terms of them. Therefore, the concept of perceived risk used by consumer researchers bears a closer relationship to the concept of partial ignorance (where neither the
consequences of alternatives nor their probabilities of occurrence are accurately known).

Although some authors have implied that “dealing with information implies the handling of uncertainty, in a word, it means to handle ‘risk’,” Peter and Ryan take the position that risk and uncertainty are clearly not the same. They suggest that to equate perceived risk to uncertainty adds little in terms of meaning specification because if perceived risk was equivalent to the concept of uncertainty and a consumer was perfectly certain that a brand is totally unacceptable for purchase there would be no uncertainty or perceived risk, by definition. However, if there is no uncertainty or perceived risk in this situation, why is the brand totally unacceptable? Risk and uncertainty must therefore be understood to be distinct from one another.

Inherent and handled risk

Inherent risk is the latent risk a product class holds for a consumer, while handled risk is the amount of conflict the product class is able to arouse when the buyer chooses a brand from a product class in his/her usual buying situation. Handled risk represents the end results of information acquisition and risk-reduction processes on inherent risk. For example, a consumer may feel there is a great deal of risk associated with the product class shampoo; however, they buy their favourite brand with confidence. Dowling and Staelin have referred to this distinction as product category and product-specific risk.

Peter and Ryan suggested that the importance of loss varies by market segment and product class, but that it adds little to the explanatory power when used to weight probability of loss at the brand level. In Bettman’s terms, importance of loss operates at the inherent risk level, while probability of loss operates at the handled risk level. For example, an expected financial loss of £100 per year because of poor fuel economy should be just as important to the
consumer whichever car he chooses to buy. However, the probability of this loss could clearly be expected to vary from brand to brand.

2.8 Risk, involvement and trust

Perceived risk has also been found to be related to other consumer behaviour concepts, e.g. Cognitive style. Kogan and Wallach found that self-sufficiency and independence were related positively to risk taking and rigidity was negatively related. Schaninger showed perceived risk and its components were negatively related to self-esteem, rigidity and risk taking and positively related to anxiety measures. Here, we focus on perceived risk’s relationship to two important concepts, namely involvement and trust.

Risk is often viewed as an antecedent of involvement particularly when the price is high and the consumer risks losing money. However, it has also been conceptualised as an intrinsic part of the involvement construct. Laurent and Kapferer’s conceptualisation of involvement included four components (the product’s pleasure value, its symbolic value, risk importance and probability of purchase error) of which two are related to risk.

Some authors suggest that a theoretically-reasonable way to develop an intensity index for involvement is offered by the expectancy-times value structure which is very similar to some conceptualisations of risk. Much like risk attitudes, involvement has been separated into enduring and situational. However, distinctions have also been drawn between cognitive and effective involvement. Like perceived risk, involvement can be at the product category or brand level.

Risk reduction is also linked to involvement as high involvement with a single brand is commonly known as brand loyalty which has been shown to be a major risk reducer. Moorthy produces convincing evidence that product class involvement or low search cost are not sufficient to induce large amounts of
search activity and that the existence of relative uncertainty among brands is necessary for search to be useful.

Risk is also related to the concept of trust, which has recently been given much attention in the relationship marketing literature. Ring and Van de Ven note that two views on trust can be found in the management and sociology literatures. One is a business view based on confidence or risk in the predictability of one’s expectations. The other is a view based on confidence in the other’s goodwill. Doney and Cannon discuss that the trust literature suggests that trusting parties must be vulnerable to some extent for trust to become operational, i.e. decision outcomes must be uncertain and important to the trustor. In a risk-based view of trust, parties hedge against uncertain states of nature, adverse selection and ethical hazard through formal contractual means such as guarantees, insurance mechanisms and laws. Doney and Cannon provide empirical evidence to support a model which incorporates suppliers’ reputation and size, their willingness to customise and keep confidential shared information and length of the relationship; all of which can also significantly affect the amount of risk in a supplier decision. Anderson and Narus focus on the perceived outcomes of trust and define it as “the firm’s belief that another company will perform actions that will result in positive outcomes for the firm as well as not take unexpected actions that result in negative outcomes”.

From these discussions, we can see that perceived risk is a necessary antecedent for trust to be operative and an outcome of trust building is a reduction in the perceived risk of the transaction or relationship. As relationships develop and trust builds, risk will decrease.

2.9 Types of Perceived Risks

Various authors have studied and discussed these perceived risks in online context:
**Perceived Financial risk** – It is defined as concern over any financial loss that might be incurred because of online shopping.

**Perceived Performance risk** – It is defined as concern over the functionality of the communication channel (Internet) i.e. the Internet might not perform as desired and thus not deliver the benefits promised.

**Perceived Time loss risk** – It is defined the amount of time lost due to late deliver, exchange, technological difficulty (slow web site server) or technological difficulty (browsing through the web site.).

**Perceived Social risk** – It is defined as the likelihood that online shopping will affect the way others think of the online prospective shopper.

**Perceived Physical risk** – It is defined as any physical injury because of online shopping like eyestrain because of frequent exposure to computer screen etc.

**Perceived Psychological risk** – It is defined as any psychological discomfort and tension that may arise because of online shopping.

**Perceived Source risk** - It reflects concern over whether of not the prospective shopper can trust the online vendors and feel comfortable in doing business with them.

**Perceived Privacy risk** – It refers to concern over the loss of sensitive and proprietary information.\(^{44}\)
2.10 Perceived Risk Applications

Perceived risk have found its application in many areas. Food products have been a consistent feature of perceived risk studies over the years with the single most noticeable type of study being that of generic versus branded grocery items.\textsuperscript{44} Studies which have examined a mixture of convenience and shopping goods\textsuperscript{45} have shown that, in general, the higher value, more complicated and more involving products are more risky than the lower value, low-involvement simpler convenience products. The most popular products studied have been deodorant, headache remedy, coffee, car and TV. For example, Derbaix (1983) found that for search goods characterised by highly visible attributes, psychosocial risk was more important than others. For durable, experience goods which are usually expensive, financial risk came first, and for nondurable goods physical risk was more important.\textsuperscript{46}

Some studies examined only complex consumer products. Clothing is the most popular choice of product for study in this collection. However, the brown-goods market has largely been overlooked.\textsuperscript{47}

A number of authors have shown that services are riskier than products.\textsuperscript{48} This is because of the inherent properties of services, i.e. heterogeneity, perishability, inseparability and intangibility which undermine consumer confidence and increase the perceived risk, mainly by augmenting the degree of uncertainty in the decision. The most frequently studied services are life insurance, doctors and hairdressers, then legal services, banks and dry cleaners with more recent studies focusing on professional services.

Very many studies have examined fairly low-cost convenience food and nonfood stuffs, with which consumers are little involved and within which there is minimal perceived risk. This is a problem because when risk is below a risk threshold, perceived risk theory has little explicatory power; except when these products are the subject of a consumer “scare”.

47
Applications in the organisational purchasing area have been fewer, but have shown that one of the main differences between organisational and consumer risk is the degree of complexity of consequences. Recent work has suggested that organisational buyers perceived not only personal and organizational risks, but also professional risks which are associated with their role as a professional within an organisation (Mitchell, 1998).
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