

# THE ROLE OF INSTITUTIONAL MECHANISMS IN CREATING ONLINE TRUST: CROSS CULTURAL INVESTIGATION

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## ABSTRACT

*Online trust, or E-trust, is designed to encourage customers' purchasing decisions in online environment as a safe and convenient method for fulfilling their needs and/or wants. Creating and maintaining e-trust between customers and e-vendors is a significant factor that encourages customers to adopt online purchasing behaviour. Therefore, organizations created institutional mechanisms that may increase their customers' trust towards online purchasing environment. However, E-commerce Institutional Mechanisms (such as secure e-banking systems, data encryption and escrow.com services), generate different customer influences. Therefore, the purpose of this study is to better understand these influences that lead to asymmetric customers' behaviour within different cultures and societies.*

*To achieve this objective the study utilizes the 'Uncertainty Avoidance' dimension of Hofstede's (2010) model of national cultures to understand these cultural differences. This research answers two major research questions: First, how do institutional mechanisms, particularly data encryption and e-banking systems, influence the purchasing decisions of customers from high and low uncertainty avoidance cultures? Second, how can e-vendors establish cross-cultural e-trust among e-commerce customers through utilizing institutional mechanisms? This paper reports on the results of a field study of semi-structured, with open questions, interviews conducted in real e-commerce business environmental settings. The interviews were conducted with e-business owners and e-commerce customers from both the UK and Jordanian cultures.*

*This research's originality derives from that it produces an empirical and a dedicated customer's perspective, in relation to e-trust, from two very contrasting countries and cultures. The first is the UK, representing the low uncertainty avoidance culture. The second is Jordan, representing the high uncertainty avoidance culture. The findings of this research contributes to the practical implications of business organizations adopting the e-commerce business module. The findings confirm and explains similarities between the UK and Jordanian e-customers in terms of online purchasing decisions and perceiving e-vendors' institutional mechanisms. The customers tend to rely on the business brands in terms of creating online trust rather than the E-commerce Institutional Mechanisms, such as e-banking systems and data encryption.*

**Keywords:** Online Trust, E-Commerce, Institutional Mechanisms, Customer Behaviour, Purchasing Decisions.

## INTRODUCTION

Establishing and maintaining trust is one of the rapidly and constantly increasing challenges encountering business organizations, particularly, companies adopting the e-commerce business model. Online trust, or E-trust, is designed to enhance customers' belief in online purchasing behaviour as a safe and convenient method for fulfilling their needs and/or wants. Creating and maintaining e-trust between customers and e-vendors is a significant factor that encourages customers to adopt online purchasing behaviour (Wittow & Buller, 2010). This trust is, also, considered as a source of evaluating vendors by customers (Nemati, 2014).

However, customers' uncertainty regarding their purchasing decisions, risk and lack of trust in online transactions, threaten the possibility and continuity of customers making online purchasing decisions. Therefore, to safeguard customers' transactions, organizations created regulative structures (Zucker, 1986) or institutional mechanisms that may increase their customers' trust towards purchasing and repurchasing decisions in an online e-commerce environment (Fang et al., 2014).

E-commerce Institutional Mechanisms (such as secure e-banking systems, data encryption and escrow.com services) and protecting customers' online transactions, arguably, enhance online e-trust and generate different customer influences. These different influences lead to asymmetric customers' behaviour within different cultures and societies.

Generally, culture formulates customers' behaviour and their reactions towards new products or innovations. Customers' behaviours in making purchasing decisions differ according to their cultural backgrounds (Yeniyurt & Townsend, 2003; Dwyer et al., 2005). However, customers trust in e-commerce varies according to the 'Uncertainty Avoidance' level of their culture (Hofstede, 2010). Therefore, businesses adopting the e-commerce business approach produced online institutional mechanisms in an attempt to confirm customers' online transactions security and reduce customers' uncertainty levels.

Alcántara-Pilar et al. (2015) investigated customers' online perceived risk, usability and satisfaction when browsing of a tourist website. The study sample was from the UK and Spain. Findings indicated differences between the previously mentioned cultures and those differences are moderated by the dimension of uncertainty avoidance.

In that regard, scholars have found controversial research findings relevant to the impact of e-commerce institutional mechanisms on customers' online purchasing decision-making process (Fang et al., 2014; Chen et al., 2015).

The next section discusses literature relevant to e-commerce institutional mechanisms and these mechanisms' role in generating e-trust in online business environment.

## LITERATURE REVIEW

Research findings of Fang et al. (2014) suggested that effective e-commerce institutional mechanisms (such as credit card protections and escrow services), which safeguard online customers' transactions from potential risks, play a key role in establishing e-trust in online purchasing behaviour.

Chen et al. (2015) studied Perceived Effectiveness E-commerce Institutional Mechanisms (PEEIM) in a C2C online environment. After interpreting data from a sample of 294 online shoppers, the study found that PEEIM, contrary to Fang et al.'s (2014) study, has a positive impact on the trust-in-seller and purchasing intention relationship. However, the researchers argued that if effective institutional mechanisms are in place, trust becomes less important for online customers. Therefore, PEEIM has a negative impact on the relationship between trust in vendor and repurchasing decisions. Moreover, the researchers argued that

PEEIM would also have low impact on retaining customers, contrary to what is universally believed.

In addition, Ziaullah et al. (2014) conducted empirical research within the Chinese online retailing industry. The study investigated the relationships between E-satisfaction, information quality, E-trust and customers' commitment. The research findings confirmed positive relationships between all variables under investigation. However, the research did not provide an explanation to how the Chinese culture could have impacted the research findings.

Belkhamza and Wafa (2014) identify, also, the importance of uncertainty avoidance role in adopting e-commerce business model across cultures. Their study investigated and compared the customer consumption behaviour in two countries; Algeria and Malaysia.

Karahanna et al. (2013) studied e-loyalty in an online B2C environment. In testing institutional mechanisms for reducing the level of uncertainty (such as information and system quality), the researchers examined the impact of Hofstede's 'Uncertainty Avoidance' dimension on online customers' perception for e-loyalty. A quantitative study was conducted collecting customers' data from different countries and various cultures. The findings of the research suggested that uncertainty avoidance dimension moderates the impact of information quality on customers' perceived usefulness and, moreover, it moderates trust on e-loyalty.

Research by Kim et al. (2007) suggested that there is a strong impact on internet consumers' trust and perceived risk on consumers' purchasing decisions. The researchers confirmed that two factors impact the consumers' purchasing decisions: internet consumer's trust and consumers' perceived risk. They argued that internet consumers' trust is affected by consumers' disposition to trust, reputation, privacy concerns, security, the information quality of the website and the company's reputation.

In another study by Pavlou & Gefend (2004), implemented within the online auction environment, the authors explored the impact of institutional structures, such as credit card guarantees and house escrows, on generating online customers' trust. The researchers compared two variables: the impact of past experience of customers' interactions with a certain website and the impact that institutional structures may establish among e-commerce customers. Their findings revealed that institutional structural mechanisms, in online auctions may generate higher levels of trust than the past customer experiences do. Additionally, it may increase customers' satisfaction level, causing increased buyers intentions to conduct online transactions.

## THEORETICAL ASPECT

Salamzadeh (2020) proposed several variables that constitute a theoretical contribution in a research. Amongst these variables is "examining a previously tested theory in a new context". This research tests, in a new context, the "Uncertainty Avoidance" as one of the six dimensions of Hofstede (2010) model of national cultures. This research test Hofstede's theory in the context of the UK and Jordan.

Hofstede (2011) defines culture as "the collective programming of the mind that distinguishes the members of one category of people from another". This study's theoretical aspect will be drawing, generally, on Hofstede (2010) six dimensions model of national cultures, which is considered a paradigm in the cultural literature for comparing worldwide cultures (Hofstede, 2011). The six dimensions of culture developed by Hofstede are: Power Distance, Uncertainty Avoidance, Individualism versus Collectivism, Femininity versus Masculinity, Long-term versus Short-term orientation, and Indulgence versus Restraint. However, this study will be exploring only one dimension of Hofstede (2010) six dimensions model: Uncertainty Avoidance.

Uncertainty Avoidance is the cultural dimension which reflects on an individual's perceived risk and trust related to online purchasing (Cheung et al., 2005). According to Hofstede (1980) Uncertainty Avoidance is the uncertainty and ambiguity degree that societies can tolerate. Therefore, customers, according to Hofstede, can be categorized into two uncertainty avoidance cultural levels: low uncertainty and high uncertainty.

On the one hand, customers in a low uncertainty avoidance culture are characterized by being risk takers and innovators. They like to attempt new challenges, are not afraid of unusual situations and feel comfortable dealing with change and ambiguity. The culture in such a society is marked by there being fewer rules and restrictions.

On the other hand, customers in high uncertainty avoidance societies reveal more resistance to change are risk averse and are emotional decision makers. They consider the unusual as dangerous, and have low levels of innovation. Therefore, the customers from this type of culture require higher levels of structure and clarity (ibid).

## RESEARCH METHODOLOGY

This section illustrates the seminal aspect of this study. The methodology and method adopted to achieve the objectives of this research will be discussed in brief. The data collection and analysis process will also be illustrated.

This research adopts the qualitative research approach. The study methodology is based on a field study utilizing semi-structured, with open questions, interviews conducted in real e-commerce business environmental settings. The interviews were conducted with e-business owners and e-commerce customers from both the UK and Jordanian cultures.

Weber (2004) suggests that 'Interpretivism', as a research approach, postulates that individuals experiences and peoples' culture formulates the ground for establishing and building human race knowledge. Therefore, among the three philosophical paradigms: critical, interpretive and positive, Burrell and Morgan (1979) discussed, this research will be adopting the 'Interpretive' approach to analyse the data collected during the data collection stage.

This study seeks to enhance the understanding of individuals' experiences conducting online e-commerce transactions. The study will explore, interpret and report its findings in an appropriate research manner that can be exploited and developed by both business and academic sectors. Therefore, this study has adopted the qualitative research approach owing to its acknowledged potential in this type of research (Silverman, 2010).

During the data collection stage, semi-structured interviews were conducted with two major subject groups as it is a useful data collection method for this type of research (Kerwin et al., 2011):

1. The first subject group will comprise customers who exercised e-commerce from two different cultures:
  - Low uncertainty avoidance culture such as the UK (Clearly cultural index, 2020).
  - High uncertainty avoidance culture such as Jordan.
  - The reason for choosing subject groups from two different uncertainty avoidance levels (High and Low) is to compare the way in which customers from those environments and cultures perceive the institutional mechanisms implemented by e-vendors in e-commerce.
2. The second major subject group are the e-vendors themselves operating within the e-commerce environment. The reason for choosing this category for data collection

and analysis is to enable the researcher to understand how e-vendors perceive the process of implementing institutional mechanisms for e-commerce customers.

Interviewing respondents in the previously mentioned categories will construct a comprehensive image of the intended research topic and will enable the researcher to understand the entire process in such a way as to reach findings that have not been explored in the e-trust literature previously.

Interviewed individuals were mainly asked about their perception regarding the institutional mechanisms that e-vendors provide as a safe guard for their online transactions. Moreover, they were asked if they notice or rely on IT protection systems, such the data encryption the company utilizes, to make their purchasing decisions or establishing a connection with these businesses.

## RESEARCH FINDINGS AND DISCUSSION

The purpose of conducting this study is to enhance the understanding of e-trust in two different cultures. Particularly, how the institutional mechanism may impact e-trust and the customers' purchasing behaviour. The major research question was 'How do institutional mechanisms, such as data encryption and e-banking systems, influence the purchasing decisions of customers from high and low uncertainty avoidance cultures?' The empirical study of this research revealed some significant aspects of the above mentioned question.

The data collected and analysed in this research proved that customers from both the UK and Jordanian online markets pay no attention to the institutional mechanisms. Customers, from both previously mentioned cultures, generate e-trust from their belief in the reliability of brands that they interact with. Moreover, e-trust is generated from previous interactions and experience with the organizations customers deal with. Institutional mechanisms have no impact on customers purchasing decisions.

The results of this research contributes to practical implications of business organizations adopting the e-commerce business module. The results indicate that E-commerce Institutional Mechanisms, such as e-banking systems and data encryption, are crucial for businesses to enhance their businesses' security level. These mechanisms are, also, vital to prevent cyber security attacks and other online threats. However, online customers pay no attention to these mechanisms as they are not familiar with, nor can they clearly apprehend, the IT terminologies and perspectives associated with these mechanisms.

Results obtained from this study contribute to the improvement of how e-vendors can establish cross-cultural e-trust among e-commerce customers through utilizing institutional mechanisms. Moreover, the results of this study help to better understand how institutional mechanisms, particularly, data encryption and e-banking systems, influence the purchasing decisions of online customers. Startup businesses, particularly, relevant to e-commerce business model can utilize the finding of this research, as startups are considered vital part of the business sector especially in emerging economies (Salamzadeh, 2018). Moreover, it's true that increasing the technical.

## CONCLUSIONS

This study investigates E-commerce Institutional Mechanisms' impact on customers' behaviour within divergent cultures and societies. Institutional mechanisms are crucial for businesses to enhance their businesses' level of security. These mechanisms are, also, vital to prevent cyber security threats that business organizations may encounter. However, customers purchasing online pay no attention to these mechanisms. This is due to that most online

customers find that the terminologies and perspectives of IT are not easy to understand. Intuitional mechanisms require IT personnel and IT literate people to understand and perceive the significance and importance of these mechanisms in terms of maintaining online transactions. This confirms the importance of communication in businesses, as mismanagement and weak organizational performance are inevitable results for lack of business communication (Radovic & Salamzadeh, 2018). From the IT perspective it's also proved that the selection of the right software and hardware sets has great impact on the performance and success of businesses, particularly, small and midsize organizations (Raharjo & Perdhana, 2016).

In conclusion, there is no difference in both the UK and Jordanian purchasing culture in terms of e-commerce institutional mechanisms' impact in generating e-trust. Generally, customers conducting online transactions rely on the business brands as the source of online trust. The e-trust is accumulated customers' experience around the globe. This research outcome overlaps with Wu & Shen (2018) study implemented on "Airbnb" Chinese customers confirming the importance of institutional trust, particularly, when customers interact with business entities that they have no previous experience with and that have no recognized brand. Therefore, online customers lack the trust that accompanies recognized brands.

### LIMITATION AND STUDY FORWARD

The major limitation of this study is that it was conducted, and compared, only two cultures; the UK and the Jordanian cultures. The future scope of this research can be expanded to investigate more diverse cultural societies. Future research can, also, compare two similar cultures to verify the differences of customer purchasing behaviour in terms of how e-commerce institutional mechanisms may impact their online purchasing decisions.

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