

# The Influence of Perceived Effective Sanctions on Customer Initial Trust in an Online Vendor

Wong Chiet Bing, Khalil Md Nor.

**Abstract:** With no knowledge about an unfamiliar online vendor and prior to conducting transaction with the vendor, customers will depend on whatever information is available to them in deciding whether the vendor is trustworthy in overcoming their uncertainty feelings. Moreover, customers may also perform a cost and benefit analysis to put a situation where the other party may cheat or cooperate in the relationship. An effective sanction, that is, the perception that they have the ability to impose punishment on the vendor if the vendor does not fulfill his or her promises, can aid in developing the customers' initial trust on the vendor. This paper is aimed to examine the effect of perceived effective sanctions on trusting beliefs and trusting intention on an unfamiliar online vendor. This study proposes that a strong perception of effective of imposing sanctions on an unfamiliar online vendor may lead to customers' trustworthiness perception of the vendor and subsequently, their tendency to rely on the vendor. This paper also proposes the methodology to validate the research model. The study's contribution and limitation end this paper.

**Index Terms:** perceived effective sanctions; initial trust; trusting beliefs; trusting intention.

## I. INTRODUCTION

In a virtual world, conducting online monetary transaction with an unfamiliar online vendor is risky (Gefen, 2002; Lowry, Vance, Moody, Beckman, & Read, 2008). Customers will stop at the earlier buying decision making stage and end up without actual purchase unless trust is established (Chen & Barnes, 2007; Jarvenpaa, 2000; Susanto, Lee, Zo, & Ciganek, 2013). Under uncertainty environment, customers certainly trust and buy from a well-established website. To that end, the website owned by a small company or start-up is always at a disadvantage against larger competitors with established reputation (Kim & Kim, 2011; Lowry et al., 2008). In Malaysia, more Small-and-Medium sized Enterprises (SMEs) which are the backbone of country's economy are seen to run business online. Malaysia External Trade Development Corp (Matrade) reported that the e-commerce adoption among Malaysian SMEs was 32 percent in year 2016 and is projected to grow by up to 50 percent by 2020 (Malaysian Investment Development Authority, 2018). A rapid development of technology will continuously change the world, demanding human and business to go virtually. While it is expected that more and more local SMEs will enter the online market, one of the greatest challenges is how they do succeed in an extremely

competitive online market where it has already been flooded with too many competitors, from local to international and from small- to large-sized businesses. In an online market with wide selection of sellers to deal with, customers would absolutely have trust and buy from a well-known, large-sized business. Consequently, their existence makes customers to ignore the existence of other relatively small businesses, i.e. SMEs. SMEs are drivers of the economy growth and job creation in the country and there is a need to encourage people to support and buy from the local SMEs who have begun to enter the online market. Their business success will grow the country's GDP and create more jobs. Customer is epicenter of every business, thus its success will be heavily dependent on customer's acceptability of the company offering. Developing customer initial trust is essential and a very first step for new businesses, especially small- and medium-sized business to succeed (Lowry et al., 2008). It is expected that once the customer has trust on the vendor, it can lead to first purchase and in turn lead to repeat purchase (Kim, 2012; Komiak & Benbasat, 2008). There is a need to examine factors that can develop this trust, i.e. initial trust.

Initial trust is no longer a new area of research. McKnight and colleagues are among the first studying initial trust in online transaction. Particularly, trust that they construct and conceptualize is based on Mayer et al.'s (1995) well-recognized, comprehensive trust definition. Mayer et al. (1995) defined trust as "the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party" (p.712). Based on this trust definition which reflects two key components of trust construct (i.e. cognitive aspect and behavioral aspect), McKnight and colleagues have constructed trust in their models by specifically decomposing it into: (1) Trusting beliefs which refers to one's beliefs that the other person is competent, benevolence and has integrity and (2) Trusting intention which refers to one's willingness to depend on the other person. Based on Ajzen's (1988) research proposition that positive beliefs regarding an action have a positive effect on intention to perform that actions, they have suggested a positive relationship between trusting beliefs and trusting intention. According to them, these two distinct components are strongly inter-related where the existence of trusting beliefs about an entity is the most important elements of forming trusting intention. Trusting beliefs are important, as they are the only input into the trusting intention decision which is specific to a given entity. Meanwhile, the term "initial" in the initial trust concept means trust in an unfamiliar party, i.e. one with whom a customer has no past experience or interaction (McKnight, Choudhury,

Revised Manuscript Received on June 8, 2019.

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&Kacmar, 2002b). Accordingly, initial trust, is defined by them, as one's beliefs in and willingness to depend on an unfamiliar party. McKnight and colleagues have studied initial trust in buyer-and-seller relationship, specifically explored the factors affecting customers trusting beliefs and trusting intention on an unfamiliar online vendor. They (McKnight &Chervany, 2001; McKnight, Choudhury, &Kacmar, 2002a; McKnight et al., 2002b) and other researchers who have further extending their works (Eastlick&Lotz, 2011; K. Kim & Kim, 2011; Lowry, Roberts, &Higbee, 2007; Lowry et al., 2008; Lowry, Wilson, & Haig, 2014; Yang, Lin, Chandrees, & Chao, 2009) have introduced various constructs as antecedents of initial trust. The related constructs include, i.e. situation normality, structural assurance, disposition to trust, perceived website quality, perceived web vendor reputation, perceived co-brand image, and co-brand awareness. According to the researchers, when customers have zero knowledge about an online vendor, prior to conducting transaction, they will use their existing knowledge and experience that they have in the Internet, and also may search for as much information as possible about the vendor. All these are to determine whether the vendor is trustworthy and at the same time to overcome their uncertainty feeling on whether to trust the vendor or not.

Furthermore, in that uncertainty condition, the customers will also perform cost-and-benefit analysis to put a situation where the vendor may cheat or cooperate in the relationship. An effective sanction, that is, perception that they have the ability to impose punishment on the vendor can help in developing customers' initial trust on the vendor. To the best of researchers knowledge, perceived effective sanctions has not yet been incorporated in the McKnight's trust related models, to study its effect on initial trust, particularly on initial trusting beliefs and initial trusting intention in an unfamiliar online vendor. Researches (i.e. Kuan& Bock, 2007; Bock et al., 2012) have suggested perceived effective sanctions as important antecedents of initial trust, however unlike McKnight's trust related studies, trust that they construct is basically referred to one part of trust components, that is, trusting beliefs as termed by McKnight and colleagues. This also means that the perceived effective sanctions that they propose is antecedent to trusting beliefs only while omitting the trusting intention as another key component of trust. It is essential to explore the effect of the perceived effective sanctions on trusting intention, as according to McKnight's trust-related studies (i.e. McKnight et al., 2002a, 2002b), comparing trusting intention with trusting beliefs, trusting intention indicates a firmer commitment to trust, has better predicting power on specific behavioral intention that will lead one to indulge in certain behaviors (i.e. make purchase, follow advice and give personal information), and one who has trusting intention on the other party is not merely due to one's trusting beliefs but also due to other factors, where one's perceived effective sanctions could be one of the factors. Examining its direct effect on trusting intention should enhance the predicting power on trusting intention. Given that the McKnight's trust related studies have defined initial trust by clearly dividing it into two separate yet interrelated trust components, we seek to incorporate perceived effective sanctions in McKnight's trust model to develop a greater understanding on how it affects customers' initial trust in an unfamiliar online vendor. And, in particular, improve the Kuan and Bock's (2007) and

Bock et al.'s (2012) works through a proposed direct relationship between the constructs. This study proposes an examination of the effect of perceived effective sanctions on trusting beliefs and trusting intention in an unfamiliar online vendor.

This paper is organized as follows. In the next section, we present the search and the review of literature related to initial trust. This is followed by third section describing the research model and its associated research hypotheses. Section four describes the proposed research methods to validate the research model. Finally, the paper concludes with implications, limitations and suggestions for future research.

## II. LITERATURE REVIEW

This study has searched the "trust" articles through well-known e-databases, that is, Elsevier's Scopus and Thomson Reuter's Web of Science. Instead of using "initial trust", we used the keyword "trust" in the search process to minimize the risks of omitting the relevant articles which may have omitted the initial trust in their keyword. The results of general keyword search showed that there are over 170,000 trust articles were published from year 2007 to year 2018. Because of it is impossible to review such an incredible huge number of trust articles and given that this research is only interested at studying trust specifically in the context of online transaction, the researcher has set a specific subject area (i.e. social science and information system) in the search process to screen articles that are related to the area of present research. In the specific subject area search, over 58,000 trust articles in the field of social science and information system for the period between year 2007 and 2018 were generated. Subsequently, we performed content reviews and then screened over the articles which match the topic that interests this study. The articles which are related to Business-to-Customer online business setting, initial trust concept and with empirical findings were included in the final review list. It must be noted that the search and reading on trust articles which were published in recent twelve years, does not mean that the early articles have been ignored. In fact, the reading on recent articles and through snowballing technique enable the researcher to detect the earlier researches related to the study's topic. These earlier researches were also included in the review. As a result, fifty articles were found to meet the criteria.

Based on review of literature, McKnight and colleagues are among the earlier studying initial trust in online transaction. Inspired by Mayer et al.'s (1995) trust definition, McKnight and colleagues have constructed trust in their models by decomposing it into two separate yet interrelated components (see Figure 1). One component is (1) trusting beliefs which refers to one's beliefs that the other person has characteristics beneficial to oneself – such as competence, benevolence and integrity. According to their research work, trusting beliefs are conceptually clustered into three distinctive dimensions: competence belief (reflect one's belief that the other person has the ability to do what one needs), benevolence belief (reflect one's belief that the other party cares about and is motivated to act in one's interest) and integrity belief



(reflect one’s belief that the other party is honest and fulfils promise). These three trusting beliefs that they measure were treated as one construct rather than being distinguished from each others, as they viewed that in a context where the subject knows little about the trustee, he or she will not able to differentiate among the trusting beliefs more discretely. Some or all of these trusting beliefs will probably merge together into one construct (McKnight &Chervany, 2001). Another component is (2) Trusting intention which refers to one’s willingness to depend on the online vendor. Meanwhile, the term “initial” in the initial trust concept means trust in an unfamiliar online vendor, one with whom the consumer has no past experience or interaction (McKnight et al., 2002b). Accordingly, initial trust refers to one’s beliefs in and willingness to depend on an unfamiliar online vendor. They have contributed to the literature a range of initial trust models with a set of antecedents of initial trust.

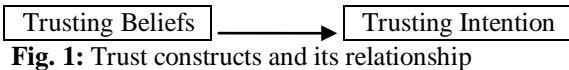


Fig. 1: Trust constructs and its relationship

**A. McKnight’s Trust and Extended Models**

McKnight and colleagues’ research works (i.e. McKnight et al., 2002a, 2002b) have proposed and validated several constructs related to antecedents of initial trust. These related constructs include trusting stance, faith in humanity, situation normality, structural assurance, perceived website quality, and perceived web vendor reputation. Their research models which contained these essential antecedents of initial trust have later been adopted by other researchers who are also studying initial trust specifically in the context of online transaction (i.e. Eastlick&Lotz, 2011; Kim & Kim, 2011; Lowry et al., 2007; Lowry et al., 2008; Lowry et al., 2014; Yang et al., 2009). However, constructs namely, i.e. trusting stance and faith in humanity, are later proposed by Lowry et al. (2014) to be combined in one construct and named as disposition to trust. Moreover, it is observed that some constructs which are related to these six essential trust antecedents were introduced using different names. For instance, comparing McKnight et al.’s (2002b) and Lowry et al.’s (2014) research models, it shown that surface credibility is very close to site quality. Also, there are some constructs were proposed as conceptually opposite of these essential trust antecedents. For instance, Eastlick and Lots (2011) proposed a construct namely Information Privacy Concern which is conceptually, operationally opposite to Structural Assurance. McKnight’s trust models have also been extended and validated by the researchers by including other constructs as antecedents of initial trust. They are co-brand image and co-brand awareness (Lowry et al., 2007; Lowry et al., 2008). The trust antecedents which have been proposed in McKnight’s trust related models are summarized in Table 1. Reviewing their models and to the best of our knowledge, an essential antecedent of initial trust, that is, Perceived Effective Sanctions can be added to the model.

**Table 1.** Summary of the Antecedents of Initial Trust in McKnight’s Trust-related Models

Author (s)	Situation normality	Structural assurance	Disposition to trust	Perceived website quality	Perceived vendor reputation	Co-brand image	Co-brand awareness
McKnight et al.	x	x	x	x			

(2002a) McKnight et al.	x				x		x
(2002b) Lowry et al. (2007)							x
Lowry et al. (2008)	x	x			x		x
Yang et al. (2009)					x	x	
Eastlick and Lotz (2011)		x				x	
Kim and Kim (2011)							x
Lowry et al. (2014)					x	x	

**B. Effective Sanctions as a powerful form of Social Capital that affect Initial Trust**

Perceived effective sanctions refers to the expectation of benign behavior from retailer based on the sanctions that customers can impose on the retailer (Bock et al., 2012). This concept is basically based on French and Raven’s (1959) concept of coercive power that measure the perceptions of an individual on his or her ability to impose punishment. It includes customers in punishing vendors who violate norm, value, or goal via complaint measures or legal means. Conceptually, perceived effective sanctions is quite similar to calculative process of forming trust (Doney& Cannon, 1997), calculus-based trust (Lewicki& Bunker, 1995), and deterrence-based trust (Shapiro, Sheppard, &Cheraskin, 1992). These concepts postulate that a customer will perform cost-benefit analysis in a situation where another party could cheat or cooperate in the relationship. Researches (i.e. Kuan and Bock, 2007; Bock et al., 2012) have studied and have empirically found that a significant, positive effect of individual perceived effective sanctions on his or her initial trust on an unfamiliar online retailer. According to them, when customer is first dealing with and without knowledge about an unknown online retailer, he or she will based on his or her perception of effective sanctions to make trust inference on the retailer. If customer knows he or she can impose sanctions on the others, one will believe that retailers will fear the consequences resulting from untrustworthy behavior, and is thus constrained to behave in a trustworthy manner. It will lead one to believe that the vendor will behave beneficially to them and will not take advantage of them.

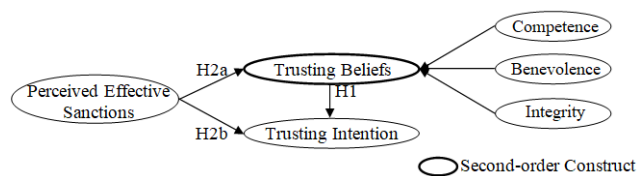
While the perceived effective sanctions has been suggested by Kuan and Bock (2007) and Bock et al. (2012) as important antecedent to initial trust, however, trust that they conceptualized is, in fact, referred to trusting beliefs as termed by McKnight’s trust studies. This means that the perceived effective sanctions that they propose is antecedent to trusting beliefs. They have examined its effect on trusting beliefs only while omitting examining its effect on trusting intention. It is essential to explore the effect of the perceived effective sanctions on trusting intention, as according to McKnight’s trust-related studies (i.e. McKnight et al., 2002a, 2002b), comparing trusting intention with trusting beliefs, trusting intention indicates a firmer commitment to trust, has better predicting power on specific behavioral intention that will lead one to indulge in certain behaviors (i.e. make purchase, follow advice and give personal information), and one who has trusting intention on the other party is not solely due to one’s trusting beliefs but also due to other factors, where one’s perceived effective sanctions could be



one of the factors. McKnight's initial trust related studies have conceptualized trust by clearly dividing it into two separate yet interrelated components (i.e. trusting beliefs and trusting intention). Perceived effective sanctions from Kuan and Bock's (2007) and Bock et al.'s (2012) researches has not been tested on McKnight's conceptualization of trust. Therefore, it would be worthwhile to test perceived effective sanctions on McKnight's conceptualization of initial trust (which consists of trusting beliefs and trusting intention in particular).

**C. Research Model and Hypotheses**

The proposed research model is shown in Figure 2 below. Based on the McKnight's seminal works and in this study, all constructs in the proposed research model are reflective constructs except trusting beliefs, which are modeled as a formative construct which consists of three sub-constructs: competence, benevolence and integrity. In the following section, the associated research hypotheses are discussed. The relationship between the constructs is explained based on literature, logic, theoretical, and empirical support.



**Fig. 2.** Proposed Research Model

*1) Trusting Beliefs and Trusting Intention*

Based on the McKnight et al.'s (2002b) trust definition and conceptualization, in this study, trusting beliefs refers to one's beliefs that an unfamiliar online vendor is competence, benevolence and has integrity. Specifically, competent means one's belief that web vendor is capable to do what his or her needs; benevolence means one's belief that web vendor care about him or her and is motivated to act in his or her interests; and integrity means one's belief that web vendor is honest and keep his or her promise. Another construct, that is, trusting intention refers to one's willingness to rely on the unfamiliar online vendor. Trusting beliefs is postulated to affect trusting intention. In online transaction, if customers strongly sense that an unknown online vendor is kind hearted, capable and honest and the vendor will treat them favorably and will not cheat them, these will increase their tendency to rely on the vendor. This assumption has been made by McKnight et al. (1998) and then empirically confirmed by McKnight et al. (2002b), Lowry et al. (2008), Yang et al. (2009), Eastlick and Lotz (2011) and Kim and Kim (2011). Based on the above assumption and empirical support, it is hypothesized that:

H1: Trusting beliefs positively affects trusting intention

*2) Perceived Effective Sanctions*

Bock et al. (2012) defined perceived efficacy of sanctions as expectation of benign behavior from multi-channel (brick-and-click) retailer based on the sanctions that customers can impose on the retailer. Accordingly, in this study, perceived effective sanctions refers to one's expectation of benign behavior from the online vendor based on the sanctions that he or she can impose on the vendor. Perceived efficacy of sanctions as a powerful form of social

capital can affect trusting beliefs. As mentioned earlier, if one knows he or she can impose sanctions on the others, one will believe that retailers will fear the consequences resulting from untrustworthy behavior, and is thus constrained to behave in a trustworthy manner. It will lead one to believe that the vendor will need to have characteristics beneficial to them and will not take advantage of them. Similar to the context of online transaction, when the customers have zero knowledge about an online vendor, the perception of sanctions will aid them to feel good about the vendor. If customers think that they can impose punishment on the vendor via complaint measures or other legal means; the punishments would make them feel that the vendor will avoid to take advantage of or harm the customers. This leads to the customers to believe that the vendor will have trustworthiness characteristics. This supposition has been made and empirically proven by Kuan and Bock (2007) and Bock et al. (2012). Accordingly, this study hypothesizes that:

H2a: Perceived effective sanctions positively affects trusting beliefs

Perceived effective sanctions can affect trusting intention too. Online dealing with the unknown vendor is risky due to the possibility that the vendor will break their promise after purchase. Prior to buying, one might worry whether the purchase's outcome meets the promise made by vendor. However, if the customers think that they can impose sanctions on the vendor who fails to keep their word through complaint or other legal means; the sanction would make customers to believe that vendor will avoid to take advantage of customers because of the perception that the vendor will has more to lose than gain by behaving dishonesty. This leads to reduction of risk of transaction loss and thus increases their inclination to rely on the vendor. Based on the above assumption, this study proposes that:

H2b: Perceived effective sanctions positively affects trusting intention.

**III. METHODOLOGY**

In this study, a quantitative method is suggested to validate the conceptual model. Questionnaire will be used as the instrument to collect data. The items which will be used to measure the constructs in the models were majorly adapted from previous validated instruments while some of them were newly designed. Before actual data collection begins, a pretest, which is to assess the content validity of the instrument, was carried out where in a focus group, two experts and five Phd students in the field of management, marketing and management information system were consulted to help improve the quality of the instrument (i.e. item wording, clarity and relevance). Then, a pilot study on a small sample size of respondents was carried out where 30 respondents were asked to complete the questionnaire and to provide feedback on the design, clarity and wording of the questions. Specifically, based on the responses, we ran a reliability test using SPSS 24.0 software to assess the internal consistency of the individual items of each construct. The test results showed that the Cronbach's alpha coefficient values of all constructs, i.e. perceived effective sanctions ( $\alpha = 0.865$ ), trusting beliefs – competence ( $\alpha = 0.738$ ), trusting beliefs – benevolence



( $\alpha = 0.853$ ), trusting beliefs – integrity ( $\alpha = 0.925$ ) and trusting intention ( $\alpha = 0.927$ ), were greater than 0.7 indicating they are reliable. The instrument was slightly improved based on the feedbacks gathered from the pretest and pilot test, and the final version of the instrument is shown in Table 2. The target respondents of this study are online shoppers. Due to university students have become important online shopper segment as most of them are the most connected, experienced and frequent users of the Internet (Drennan, Mort, &Previte, 2006) and according to Hair et al.'s (2017) 10 times rules and equation of determining sample size, a total of 120 local university students are proposed to participate in the study. The study involves two phases. In a computer laboratory, the respondents will be asked to visit a fictitious website designed by this study, called MR. IT SHOP. This is to ensure the website is new and the respondents visit the website for the first time so that initial trust as what we aim to study can be investigated. After the website browsing, the respondents are given a questionnaire which will solicit their perception on sanctions, trusting beliefs and trusting intention. The collected data are proposed to be analyzed statistically using smartPLS.

**Table 2.** Items of Measuring Constructs

Construct	Item adapted and newly designed in this study	Status	Sources	Trusting Intention	
<b>Perceived Effective Sanctions</b>	Since I can report the problems of my online purchases with MR. IT SHOP through the website itself or social media (i.e. give bad rating, provide negative comments, and share the problems in the public to make it go viral),				
	<i>1. I believe that MR. IT SHOP is likely to take appropriate action to take care of my problems.</i>	Adapt	Bock et al. (2012)	<i>1. I believe that MR. IT SHOP would act in my best interest.</i>	
	<i>2. I believe that MR. IT SHOP is likely to solve these problems.</i>	Adapt		<i>2. I believe that MR. IT SHOP would do its best to help me if I required help.</i>	
	<i>3. I believe that MR. IT SHOP is likely to be more careful in the future.</i>	Adapt		<i>3. I believe that MR. IT SHOP would be interested in my well being, not just its own.</i>	
<b>Trusting Beliefs (second-order construct)</b>	<b>Competence</b>				
	<i>1. I think that MR. IT SHOP is competent in handling online transactions.</i>	Adapt		<i>4. I believe that MR. IT SHOP would be concerned about what is best for me.</i>	
	<i>2. I think that MR. IT SHOP performs its role of handling online transactions very well.</i>	Adapt	McKnight et al. (2002b)	<b>Integrity</b>	
	<i>3. I think that, in overall, MR. IT SHOP is capable at meeting customer needs.</i>	Adapt		<i>1. I think that MR. IT SHOP is truthful in its dealings with me.</i>	
<b>Benevolence</b>	<i>4. I think that, in general, MR. IT SHOP is very knowledgeable about the business it operates.</i>	Adapt		<i>2. I think that I would characterize MR. IT SHOP as honest.</i>	
				<i>3. I think that MR. IT SHOP would keep its commitments.</i>	
				<i>4. I think that MR. IT SHOP is sincere in how it deals with me.</i>	
				<i>1. If I need to buy things, I would feel comfortable depending on MR. IT SHOP.</i>	
			<i>2. I can always rely on MR. IT SHOP whenever I need to buy things.</i>	Adapt	et al. (2002b)
			<i>3. I feel that I could depend on MR. IT SHOP to conduct my buying activities.</i>	Adapt	McKnight et al. (2002b)
			<i>4. If I need a best product on a specific feature, I would be willing to rely on the information provided by MR. IT SHOP.</i>	Adapt	Fuller, Serva, and Benamati (2007)

**IV. CONCLUSION**

Perceived effective sanctions is an essential factor of building customer initial trust on an online vendor. This research is conducted to study the influence of perceived effective sanctions on initial trust which, based on McKnight's trust conceptualization, is divided into two specific components, that is, trusting beliefs and trusting intention. We propose that customers with a strong perception on effective of imposing sanctions on an unfamiliar online vendor will have higher beliefs that the vendor will behave trustworthily and consequently have higher tendency to rely on the vendor. In particular, this study contributed academically by proposing a relationship between perceived effective sanctions and trusting intention; which it has not yet been explored in the literature. Apart from theoretical value, the research outcome will benefit small and medium sized businesses. This study seeks to find out whether one's perceived effective sanctions can help to establish his or her initial trust on an unfamiliar online vendor. By gaining understanding of it and this knowledge might become the sources for business especially



in small scale to succeed. It can assist the business that plan to venture online to find ways in altering the business strategies and tools (i.e. refining the sales and return policy and adding the customer's reviews box on the product's web page) to convince customers that the business will has much to lose if problems occur with their online purchases. So that leads the customers to have trust and buy from the business. This can make the business become better at serving the customers' need when it comes to establishing initial trust. Our study is not free of limitation. A research model was proposed, however it has yet been empirically validated; and this is what we aim to do in future research.

### ACKNOWLEDGEMENT

The authors would like to thank the ZamalahUniversitiTeknologi Malaysia for their financial assistance.

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