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# The Effect of Essential Online Elements on Consumer Purchase Intention: Insights from a Taobao Perspective

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## Abstract

**Purpose** – Transparency, seller reputation, and website security are considered to be important factors that influence online customer purchasing decisions in China. This paper empirically examines the relative influence of Taobao.com on customers' online purchasing decisions.

**Research design, data, and methodology** – We perform structural equation analysis, with a sample of 306 observations. The data comes from consumers' real transaction experiences from a specific website. This gives the results of our study more generalizability than studies using subjects who are not asked to engage in real transactions.

**Results** – The results of this study reveal that perceived security and perceived reputation are critical factors affecting consumer trust and perceived transparency is most closely associated with purchase intention.

**Conclusions** – The findings suggest that perceived transparency plays a significant role in increasing online consumer's purchase intention. The knowledge of the relative impacts of these factors and their roles in the customer transaction experience will be useful in developing customized sales strategies. The results of this study reveal that perceived transparency exerts a stronger effect than perceived reputation on consumer purchase intentions.

**Keywords:** Perceived Transparency, Perceived Reputation, Perceived Security, Customer Trust, Purchase Intention.

**JEL Classifications:** M10, M20, M30, M31.

## 1. Introduction

The Internet have brought markets closer to the higher level state of perfect information in China, by reducing the information asymmetries between sellers and consumers. For consumers to make a purchase decision, it is a lot easier to search online for product alternatives, prices, product performance, and vendors. However, Taobao's vendors find that it more difficulty to convert potential customer's purchase motivation into reality. Because of the physical and temporal distance between consumers and sellers, Internet shopping incurs uncertainty and increases risk through the information asymmetry between the two parties. How to retain existing customers to make purchases becomes a more important concern for online sellers than ever before (Johnson et al., 2008).

In the presence of such risk and uncertainty, lack of trust has been identified as one of the greatest barriers prohibit Internet transactions (Cheskin, 1999; Hoffman et al., 1999; Pavlou et al. 2007). Many studies have argued that trust in an online store has become a key predictor of customer decisions in Internet shopping (Gefen, 2002; Qureshi et al., 2009).

Actually, previous research has proposed many trust factors, for example, emphasizing transparency clearly to online consumers can influence users' cognition and directly facilitate the shopping goal attainment (e.g., Eroglu et al., 2003; Parboteeah et al., 2009). Seller reputation is also a strong factor influencing returning customers' trust (Jarvenpaa and Tractinsky, 1999; Jarvenpaa et al., 2000), the lack of security as perceived by online consumers is another of the main obstacles to the development of e-commerce (Furnell and Karweni, 1999). However, researchers have failed to integrate all these factors into a comprehensive model, the synergy effect of these factors on online purchase decision needs more attention.

Based on the research needs outlined above, this research attempts to address these limitations by aiming to examine the relative influence of essential elements of [www.taobao.com](http://www.taobao.com)—perceived transparency (i.e., perception the level of availability and accessibility of e-market information from an Internet seller), perceived reputation (refers to the consumer's belief that the seller's word of mouth, or e-service provider, or brand has a good public image) and the perceived security (i.e., reflects re-

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garding the reliability of the payment methods used) have on online consumer trust as well as purchasing decisions. Specifically, we seek to answer two research questions: (1) What are the key dimensions of online trust on [www.taobao.com](http://www.taobao.com)? (2) How would perceived transparency, perceived reputation and perceived security affect online purchase intention differently for customers at an Internet store?

This paper is organized as follows. The next section presents the literature review, followed by the research model and hypotheses. We then describe the research methodology. After interpreting the empirical results, we discuss the theoretical and practical implications and conclude with a summary.

This study contributes to our knowledge on customer decisions in a number of ways. First, it examines the relative importance of perceived transparency, perceived reputation and perceived security when customers make purchase decisions with an Internet seller. Second, while prior research has examined the effect of elements of website on online customer shopping, perceived transparency, which has been largely neglected in the literature, our results indicate that perceived transparency indeed plays an important impact on online customer purchase intention in China.

## 2. Literature Review

Internet shopping is characterized by risk and uncertainty for customers. Therefore, theories that explain human behavior under conditions of risk and uncertainty can shed light on customer behavior in the context of Internet shopping. With the objective of investigating the effect of perceived transparency, perceived reputation and perceived security on consumer trust, we review the theory of reasoned action (Fishbein and Ajzen, 1975) and the prospect theory (Kahneman and Tversky, 1979).

The theory of reasoned action (TRA) (Fishbein and Ajzen, 1975) explains the relationship between attitudes, intentions and behaviors. TRA model posits that human beings make rational decisions based on the information available to them, and the best determinant of a person's behavior is intent which is the cognitive representation of readiness to perform a given behavior (Ajzen and Fishbein, 1980). Accordingly, information quality provided by the e-commerce website contents can greatly affect the intention to purchase. Also, if the information provided by the website is reliable and accurate, then this will increase online customer trust which will lead the customer to make the initial purchase.

Prospect theory explains human decisions under conditions of risk and uncertainty from a value maximization perspective (Kahneman and Tversky, 1979). This theory suggests that people put more weight on positive outcomes that are considered certain than positive outcomes that are deemed probable. It is this certainty effect that causes people to be risk-averse when making decisions involving gains, and this effect explains why people tend to prefer an option with certain but lower benefit over an option with uncertain but higher benefit.

Trust appears in risky and vulnerable decisions and favours the reduction of perceived risk in the decision-making process, and it has been traditionally considered as a key element for the acquisition of a long-term, stable and profitable relationship (e.g. Garbarino and Johnson, 1999; Geyskens and Steenkamp, 1995). Consequently, trust has become a strategic objective for a good many players in e-commerce, since the level of consumer trust is directly related to an individual's intention to purchase (Koufaris and Hampton-Sousa, 2002) and, more specifically, with the degree of commitment shown by the purchaser (Mukherjee and Nath, 2003).

### 2.1. Perceived Transparency

Transparency is clearly visible for online consumers, as it conveys the values of product attributes and the relationships among the product attributes, merchandising information that can influence users' cognition and directly facilitate the shopping goal attainment (Eroglu et al., 2003; Parboteeah et al., 2009). Perceived transparency is perception the level of availability and accessibility of e-market information to its participants (Zhu, 2004). Perceived transparency benefit consumers because they are able to better discern the product that best fits their needs at a better price. On the other hand, the Internet provides sellers with flexibility to strategically determine the information they will provide to consumers via their selling mechanism.

### 2.2. Perceived Reputation

According to Wang and Vassileva (2007) reputation is a subjective assessment of a characteristic or attribute one entity ascribes to another based on observations or past experiences. As an intangible asset, reputation signals information about a firm's quality and performance (Ghosh and John, 2009). Buyers want to perform transactions without revealing details about their privacy or other details, while typically need to know the reputation of the seller they intend to buy from. Reputation is nothing but a combination of the opinions of other people who have had experience with the particular seller. A seller's reputation is a big concern for buyers prior to placing an order or making a payment.

### 2.3. Perceived Security

The lack of security as perceived by online consumers is another of the main obstacles to the development of e-commerce (Dong-Her et al., 2004). The reason for this is the possibility that financial data might be intercepted and put to fraudulent use (Jones et al., 2000). Kolsaker and Payne (2002) maintain that security reflects perceptions regarding the reliability of the payment methods used and the mechanisms of data transmission and storage. Perceived security may be defined as the subjective probability with which consumers believe that their personal information (private and monetary) will not be viewed,

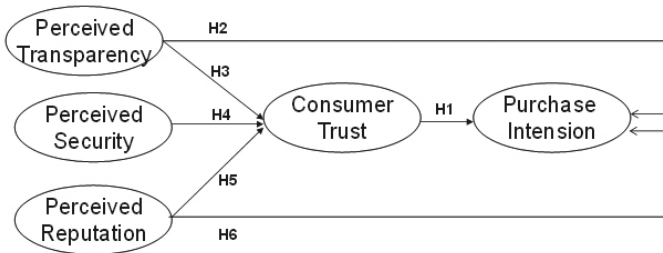
<Table 1> Structure Measurement

Constructs	Item	Wording	References
Perceive Transparency (PT)	PT1	It is easy to search product information from this website	Zhu. 2004
	PT2	In this website everything is in high transparency	Granados et al., 2005
	PT3	Information was introduced in detail	
	PT4	The seller does not concealed product information	
Perceive Reputation (PR)	PR1	The seller can abide by integrity	Wang and Vassileva 2007
	PR2	The seller has a good WOM	
	PR3	The seller's firm provide high quality product	Ghosh and John 2009
	PR4	The seller offers speedy product delievery	
	PR5	This website has a high service quality	
	PR6	The seller has higher RenQi	
Perceive Security (PS)	PS1	I think this website shows concern for the privacy of its users	Guinaliu 2005
	PS2	I think this website abides by personal data protection laws	Wang et al. 1998
	PS3	I feel safe when I send personal information to this website	
	PS4	I think this website only collects user personal data for its own use	
Consumer Trust (CT)	CT1	This website keeps its promises and commitments	Grazioli and Jarvenpaa 2000
	CT2	This website does not make false statements	
	CT3	This website is trustworthy	
Purchase Intention (PI)	PIN1	The probability that I would consider buying goods from this website is high	Gefen and Devine 2001
	PIN2	If I were to buy goods, I would consider buying it from this store	
	PIN3	My willingness to buy goods from this website is high	

stored, and manipulated during transit and storage by inappropriate parties in a manner consistent with their confident expectations. Websites may increase consumer trust by decreasing perceived environmental risk or by raising security (Warrington, Abgrab, and Caldwell, 2000).

### 3. Research Model and Hypotheses Development

In this section, we develop a research model, thus, our prime focus is to investigate the relationships between consumer trust, perceived transparency, perceived reputation, perceived security and purchase intention. The conceptual model guiding this research is depicted in Figure 1. The hypotheses are discussed in detail below.



<Figure 1> Research Model

Consumer trust in e-commerce is a psychological state for consumer's intention to purchase online. Trusting intentions, that is, intention to engage in trust-related behaviors with the Internet seller. This is not uncommon in TRA-based studies of technology acceptance (e.g., Agarwal and Prasad, 1998 Karahanna et al., 1999 Venkateshet al., 2000). Prior research has confirmed a

strong correlation between behavioral intentions and actual behavior (Sheppard et al., 1988 Venkatesh and Davis, 2000). Based on the above discussion, if the information provided by the website is transparency, reliable and accurate, along with marketer's reputation, then this will increase online customer trust which will lead the customer to make the initial purchase. Thus, it can be hypothesized that:

<H1> Consumer trust in an Internet shopping context has a positive effect on purchase intention.

Perceived transparency refers to the perception extent to which information is made available to market participants, including pricing, product, and supplier information (Granados et al.,2005). Market transparency is negatively affected by sellers' decisions to bias, conceal,or distort information. A biased market is defined as a market where product and price information from all sellers is not presented equitably. A market that displays only prices but lacks information about product characteristics is not fully transparent because information is incomplete. On the other hand, a market that distorts information is not fully transparent because the information is inaccurate. Incomplete or distorted information may be driven by a seller's intentional marketdesigns, or by technological imperatives that limit the quality and quantity of information that can be made available.Perceived transparency may also have a direct effect on purchase intention, as previous research (e.g., Chiu et al., 2010Gefen et al., 2003Grazioli and Jarvenpaa, 2000Jarvenpaa et al., 2000 Lu et al., 2010Pavlou and Gefen, 2004) has reported. In the context of Internet shopping, these relationships are likely to apply to both potential and repeat customers. Hence, we hypothesize:

<H2> Perceived transparency in an Internet seller has a positive effect on purchase intention.

<H3> Perceived transparency in an Internet seller has a positive effect on consumer trust.

Flavián and Guinaly (2006) demonstrated that trust in the Internet is particularly influenced by the security perceived by consumers regarding the handling of their private data. Websites may increase consumer trust by decreasing perceived environmental risk or by raising security (Warrington, Abgrab, and Caldwell, 2000). In the context of Internet shopping, these relationships are likely to apply to both potential and repeat customers. Hence, we hypothesize:

**<H4>** Perceived security in an Internet shopping context has a positive effect on consumer trust.

Artz and Gil (2007) point out that seller's reputation is an assessment based on the history of interactions with or observations of an entity, either directly with the evaluator (personal experience) or as reported by others (recommendations or third party verification). Good reputation can create trust in e-commerce and increase consumers' beliefs about seller competence, benevolence, and integrity (McKnight et al., 2002). Kim et al. (2008) found that seller reputation positively affected trust in online shopping. Potential consumers or repurchases consumers need to expect that seller will have a good reputation. Seller reputation should be increase consumer willingness to purchase online from the Internet sellers. Hence, we hypothesize:

**<H5>** Perceived reputation has a positive effect on consumer trust.

**<H6>** Perceived reputation has a positive effect on purchase intention.

## 4. Research Methodology

### 4.1. Instrument development

Questionnaire was designed for each construct and the subjects were required to answer all the items based on their impressions of their most frequently shopped(www.taobao.com) website. Measurement items for perceived transparency were taken from Zhu(2004) and Granados et al. (2005). Items for perceived reputation were adapted from Wang et al. (2007) and Ghosh et al. (2009) to fit the online context. Items for consumer trust were adapted from Grazioli and Jarvenpaa(2000) because of their suitability to the context of this study. Three measurement items are for perceived security and four for purchase intention respectively. All items were measured on a seven-point Likert scale, from "strongly disagree" to "strongly agree". The measurement items are shown in Table 1. Four information systems scholars and three marketing scholar reviewed the instrument for face validity. The initial version of the survey instrument was pretested by six university professors, each holding significant expertise in the electronic commerce field. After obtaining feedback from these experts, the perceived security and perceived transparency of the measurement items were modified. A focus group of ten people also reviewed the instrument and provided feedback pertaining to the length of the instrument, the clarity of the questions, and the completeness of coverage of the questions.

### 4.2. Sample Selection

The questionnaire addresses the respondents' descriptive information about the website they frequently accessed in Internet shopping in China. The sample data were collected from the general public over 7 weeks in China. In order to maximize a response rate, both online and offline surveys were conducted to collect data. To maintain external validity, we tried to sample data from various group by visiting schools, companies, government sectors, and Internet cafes. E-mails and messengers were also employed to collect sample responses. To further prevent biased answers, the survey page assured the respondents that there was no right or wrong answer and that their response would be kept confidential. A total of 410 surveys were distributed, of which a total of 358 were returned (a response rate of 87%). After eliminating 52 responses due to incompleteness or the absence of Internet shopping experience, a sample of 306 (74%) was ultimately employed in our empirical analysis.

## 5. Empirical Analysis and Result

### 5.1. Demographic Analysis

This study requested the respondents apply their most frequent shopped website (www.taobao.com) as the reference in answering the questionnaire. Demographic analysis result are shown in Table 2. The total of female (54.9%) is slightly more than that of male (45.1%). The largest age group was 20–25 (43.1%), followed by 26–30 (23.5%), over 41 (19.6%), and 31–40 (5.9%). As for the educational background, most of the respondents were college graduates (54.3%). The sample was composed mostly of students (35.3%), employee (39.2%), civil servants (13.7%), and self-employed (9.8%). Income representation was divided four groups, the largest income group was ¥3001-5000 per month (39.2%), followed by under ¥2000 (29.4%), ¥2001-3000 (23.5%), and over ¥5000 (7.8%).

### 5.2. Reliability and Validity

The constructs were assessed for convergent and discriminant validity via confirmatory factor analysis (CFA) (Anderson and Gerbing, 1988). We first checked the unidimensionality of each construct. Following the recommended methodological procedures (Anderson and Gerbing, 1988 Gefen et al., 2000), we revised the measurement model by dropping, one at a time, measurement items that shared a high degree of residual variance with other items. The CFA showed an acceptable model fit. The results were as follows: the goodness-of-fit index (GFI) = 0.869, the normed fit index (NFI) = 0.936, the adjusted goodness-of-fit index (AGFI) = 0.866, the comparative fit index (CFI) = 0.853, the index(RMR)=0.718 and the root mean square of approximation (RMSEA) = 0.784.

<Table 2> Demographic analysis

Category		Frequency	%
Gender	Male	138	45.1
	Female	168	54.9
	Total	306	100.0
Age	20 or under	24	7.8
	21–25	132	43.1
	26–30	72	23.5
	31–40	18	5.9
	Over 41	60	19.6
	Total	306	100.0
Occupation	Student	108	35.3
	Employee	120	39.2
	Public service	42	13.7
	Self-employee	30	9.8
	Other	6	2.0
	Total	306	100.0
Income	Under 2000	90	29.4
	2001–3000	72	23.5
	3001–5000	120	39.2
	Over 5000	24	7.8
	Total	306	100.0
Frequently	Less than 5 times per year	24	7.8
	6 to 11 times per year	126	41.2
	1 to 3 times per month	114	37.3
	4 to 8 times per month	36	11.8
	More than 8 times per month	6	2.0
	Total	306	100.0

<Table 3> Results of convergent validity test

Item	Construct	Std. path loading	AVE	CR	Cronbach's alpha
PT1	Perceived Transparency	0.604	0.717	0.866	.901
PT2		0.908			
PT3		0.923			
PT4		0.909			
PS1	Perceived Security	0.791	0.744	0.657	.921
PS2		0.735			
PS3		0.97			
PS4		0.933			
PR1	Perceived Reputation	0.876	0.629	0.896	.906
PR2		0.752			
PR3		0.794			
PR4		0.809			
PR5		0.667			
PR6		0.842			
CT1	Consumer Trust	0.766	0.869	0.726	.888
CT2		0.845			
CT3		0.936			
PI1	Perceived Intention	0.936	0.862	0.948	.948
PI2		0.902			
PI3		0.946			

Internal consistency of the data was evaluated with three different measures: Cronbach's alpha, composite reliability, and average extracted variance (AVE) (Fornell and Larcker 1981). All of the latent variables showed the Cronbach's reliability co-

efficient higher than the minimum threshold value of 0.65 suggested by Lee and Kim (1999) or 0.70 suggested by Nunnally (1978), which indicates satisfactory internal consistency for confirmation purposes. To provide adequate internal consistency, the value of composite reliability must be greater than 0.7 (Nunnally, 1978). The AVE reports the proportion of the variance of the measurement items, which is accounted for by a construct. The AVE values of all constructs were greater than 0.50, indicating that over 50% of the variance is explained by the measurement items (see Table 3).

We examined construct validity by assessing the convergent validity and discriminant validity. We ran a principal component analysis (PCA) with varimax rotation for an exploratory purpose. This approach is appropriate because it allows us to retain the measurement items that are most relevant to the constructs by extracting the maximum variance for each construct (Tabachnick and Fidell, 2006). The rotation technique provides a clear interpretation and confirms the scientific utility of the solution without compromising the mathematical fit between data and the reproduced correlation matrices. Among orthogonal rotation techniques, varimax is considered to be the default choice because of its ability to simplify factors.

<Table 4> Results of principal components analysis

Items	Factor group				
	1	2	3	4	5
PR1	<b>.651</b>	.383	.309	.175	.240
PR2	<b>.716</b>	.267	.091	.206	.067
PR3	<b>.797</b>	.083	.194	.216	.201
PR4	<b>.795</b>	.186	.346	-.077	.181
PR5	<b>.710</b>	.268	.211	.213	-.160
PR6	<b>.732</b>	.319	.101	.106	.325
PS1	.318	<b>.784</b>	.177	.158	.024
PS2	.339	<b>.708</b>	.276	.000	.230
PS3	.215	<b>.883</b>	.084	.195	.191
PS4	.211	<b>.891</b>	.036	.072	.163
PT1	.042	.371	<b>.640</b>	.312	-.081
PT2	.174	.134	<b>.884</b>	.106	.261
PT3	.333	-.065	<b>.870</b>	.099	.146
PT4	.318	.205	<b>.852</b>	.126	-.004
PIN1	.121	.240	.197	<b>.857</b>	.258
PIN2	.237	.066	.099	<b>.824</b>	.359
PIN3	.202	.087	.189	<b>.871</b>	.265
CT1	.127	.073	.094	.218	<b>.854</b>
CT2	.082	.218	.161	.344	<b>.778</b>
CT3	.291	.268	.044	.331	<b>.760</b>

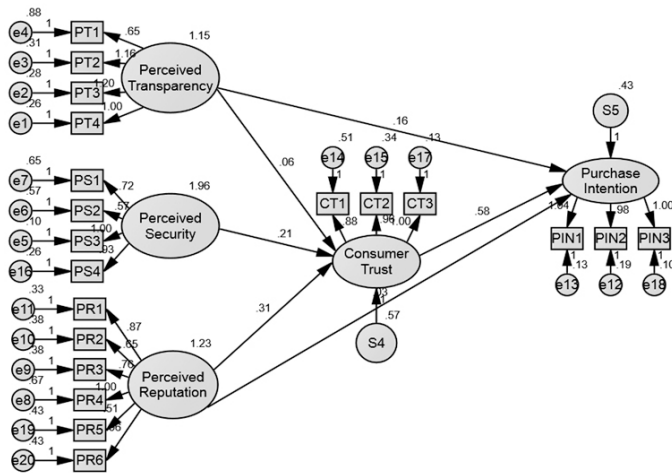
Note: PR: perceived reputation, PS: perceived security, PT: perceived Trust, PIN: perceived intention, CT: consumer trust.

We employed latent root criteria to perform item culling. Eigenvalues greater than 1 were selected (Table 4). Factor loadings greater than ±0.45 were considered to be significant for a sample size of 200 or above (Hair et al. 1998). Cross-loadings were minimal (i.e., well below the standard maximum cutoff value of 0.4), suggesting that each factor measured its own concept.

<Table 5> Correlations of latent constructs

	PT	PS	PR	CT	PI
PT	0.847				
PS	0.574	0.863			
PR	0.776	0.782	0.793		
CT	0.594	0.725	0.758	0.932	
PI	0.648	0.639	0.697	0.826	0.928

Note: Diagonal elements are the square root of AVE. The value should exceed the inter-construct correlations for adequate discriminant validity.



<Figure 2> Results For the Research Model

Structural equation model (SEM) was used to validate the causal relationship among variables in the research model. A two-stage analysis method: measurement model and structural model was used for data analysis. Amos 21 software is used to perform these analyses. The standardized path loadings

for all of the questions were statistically significant. The composite reliability and the Cronbach's alpha for all constructs exceeded 0.7. Furthermore, the average variance extracted for constructs exceeded 0.7, except for the perceived reputation's value is 0.629. Hence, the convergent validity for the constructs was established (Table 3). The values of all diagonal elements were greater than those of off-diagonal elements, suggesting that all of the constructs were distinct. As shown in Table 5, the reliability and validity tests on the variables confirmed that the survey items were sufficiently valid and reliable for further analyses. Discriminant validity is established if the square root of a construct's AVE is larger than its correlation with any other construct (Fornell and Larcker, 1981). The square root of AVE for each construct exceeded the correlation between that construct and other constructs. Hence, discriminant validity was established.

5.3. Hypothesis Testing

The second step of SEM is to confirm the hypothesized causal relationships among the constructs under study. The results of SEM are presented in Figure 2. Both perceived security and perceived reputation have a significant positive effect on consumer trust, at the same time, both perceived transparency and customer trust have a significant positive effect on purchase intention. But perceived transparency has no significant effect on the consumer trust, the reason is the consumer believe it is normal that the products' information should be visible and clear. No significant relationship has been found between perceived reputation and purchase intention (Table 6), the reason may be that consumer more emphasis on the product's quality other than vendor's reputation. Thus hypotheses H1, H2, H4, and H6 are supported, while H3 and H5 are not supported. Table 7 shows the summary of the results of hypothesis tests.

<Table 6> The result of path coefficient

			Estimate	S.E.	C.R.	P
Consumer Trust	←	Perceived Security	0.214	0.034	6.266	***
Consumer Trust	←	Perceived Reputation	0.308	0.046	6.683	***
Consumer Trust	←	Perceived Transparency	0.058	0.045	1.291	0.197
Purchase Intention	←	Perceived Transparency	0.16	0.039	4.072	***
Purchase Intention	←	Perceived Reputation	0.032	0.042	0.756	0.449
Purchase Intention	←	Consumer Trust	0.578	0.057	10.168	***

Notes: \* = significant at 0.05. \*\* = significant at 0.01 level.

<Table 7> Summary of hypotheses test

Factors	Hypotheses	Result
Consumer Trust	H1: Consumer trust in an Internet shopping context has a positive effect on purchase intention .	Supported
Perceived Transparency	H2: Perceived transparency in an Internet seller has a positive effect on purchase intention.	Supported
	H3: Perceived transparency in an Internet seller has a positive effect on consumer trust.	Not supported
Perceived Security	H4: Perceived security in an Internet shopping context has a negative effect on consumer trust.	Supported
Perceived Reputation	H5: Perceived reputation has a positive effect on consumer trust.	Not supported
	H6: Perceived reputation has a positive effect on purchase intention.	Supported

## 6. Implications and Conclusion

This study makes several important contributions to the research literature on online customer purchase intention. First, our study empirically investigates the impact of perceived transparency, perceived security and perceived reputation on a consumer's trust using real-world observations. The data comes from real consumers based on their real transaction experiences from the specific website. This gives the results of our study more generalizability than studies using subjects who are not asked to engage in real transactions.

Second, while prior research has examined the effect of elements of website on online customer shopping, perceived transparency, which has been largely neglected in the literature, our results indicate that perceived transparency indeed plays an important impact on online customer purchase intention.

Third, during prepurchase phases, Internet vendors should carefully make product information more transparency and to help potential customers to ascertain product quality and information, especially for selling search goods. Thus, clear layout and variety of selection on the website can reduce the customer's search cost for quality information of experience goods.

As with any research, this paper comes with a number of limitations, which open opportunities for further exploration in future research. First, trust is a multi-dimension concept, and the processes of online shopping can also be different. In this research, we only studied perceived transparency, perceived reputation and perceived security as an aggregate measure. However, conceptually, it is possible that some dimensions play a more significant role than others. Therefore, future theoretical investigations are warranted to understand what dimensions of trust are important to consumers' purchase intention.

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