

Chapter 1

Introduction

This chapter commences by presenting the background of the study, overview on internet usage and online shopping in Malaysia. Subsequently, it follows by reporting the research questions and objectives of the study, purpose and significant of the study, scope of the study and lastly the organization of the study.

1.1 Background

Mukherjee and Nath (2007) stated that the Internet is a driving engine of the new economy which has given birth to online retailing, a new way of selling products for most organizations and individual. It roles has becoming foreseeable to most corporate and general public. Both working towards better utilizing the Internet in daily business transactions.

With a fast growing and rising of Internet technology over the years, it influences the dramatic increase of self-service options available to internet users. This phenomenal growth makes more merchants or seller to conduct their businesses via online network (Napier, 2001). This is because the Internet made possible to reach consumers electronically, 24 hours a day, and across geographical boundaries (Ali Farhoomand and Peter Lovelock, 2001).

In the age of internet, one can choose from scores of online retailers located anywhere in the world, leading to breakdown of borders and growth in the number of competitive alternatives. Along with these, there is also a tremendous growth in the number of online retailers, which can potentially provide consumers with a vast array of alternatives and new sources of information. It precisely increased consumer sovereignty that would also lead to increased role of trust in online retailing (Mukherjee and Nath, 2007). Cheung and Lee (2000), also stated that the internet will enabled consumers to shop or do transactions 24 hours a day, all year around from almost any location. It also provides consumers more choices and allows them to have quick comparison. Moreover, it allows consumers to interact, exchange ideas, and to compare experiences with other customers in the electronic communities.

Electronic commerce is the process of trading across the Internet, whereby a buyer visits a seller's website and makes a transaction there. Less rigidly, it includes deals where the Internet plays some role, for example, assisting the buyer in locating or comparing products (Kiranjit Kaur, 2005). On the other hand, Kolesar and Galbraith (2000) define electronic retailing as the sale of products and services to consumer market over the internet. Whereas, Zwass (2003) defines e-commerce as the sharing of business information, maintaining business relationships and conducting business transactions through telecommunication networks, whilst Pandya and Dholakia (2005) define B2C e-commerce as the new technology-driven means to promote retail and distribution services to consumers.

According to Kiranjit Kaur (2005) there are opportunities that can be obtained by conducting e-commerce to business and benefit to consumers, which are worldwide

access and greater choice, enhanced competitiveness and quality of service, mass customization and personalized products and services, elimination of intermediaries, greater efficiency, lower costs and new business opportunities for new products and services.

Since this study focus on online shopping environment, thus a brief explanation of internet usage as well as online shopping and its scenario in Malaysia is in order.

1.1.1 Internet Usage in Malaysia

Back in year 1996, our former Prime Minister DatoøSri Dr. Mahathir Bin Mohammad has launched the Multimedia Super Corridor (MSC) as a new way for shifting Malaysia from the Industrial Age to a borderless Information Age. It means that Malaysian economy was entered into the global market where borders were no longer a protection from predatory economies (Kiranjit, 2005). Since then it was considered the beginning of Internet era in Malaysia.

The first Internet Service Provider (ISP) in Malaysia known as the Malaysian Institute of Microelectronic Systems (MIMOS) had launched their network known as Joint Advanced Integrated Networking (JARING) in year 1990. This network had expended and number of subscribers increased from 30 numbers in year 1992 to 23,000 numbers in year 1995. The second ISP was given to Telekom Malaysia and launched TMNet, in November 1996. The number of subscribers increased from 50,176 in year 1996 to about 300,000 at the end of year 1996 (Sankaran, 2000). In year 2004 Malaysian government has promoted a campaign öOne Home One PCö

collaborated with financial institutions and employee provident fund to enable families to purchase a computer (Kiranjit, 2005).

With government support, advancement in internet infrastructure and increasing of internet broadband companies, the number of internet user has been increased. In year 2008 the internet user was around 15,868,000 users over 25,274,133 Malaysian populations which represent 62.8 percent. The figure had increased in year 2010 where 16,902,600 users over 26,160,256 population which represent 64.6 percent of Malaysian population (Malaysia Internet Usage and Telecommunication Reports, 2010).

As reported by Franz (2009), Malaysia ranked at number nine (9) out of top ten (10) countries in Asia hold the highest number of internet users (Statistics Focus on Asia and Malaysia, 2009). Moreover, 2.4 percent of Malaysian has used internet to purchase or order goods or services through internet (Malaysian Communications and Multimedia Commission, 2005) and increased to 9.5 percent in year 2008 (Statistics Focus on Asia and Malaysia, 2009).

1.1.2 Online Shopping

Online shopping is a type of [electronic commerce](#) used for [business-to-business](#) (B2B) and [business-to-consumer](#) (B2C) transactions (http://en.wikipedia.org/wiki/Online_shopping). In year 1994 and 1995, Web-based start-up such as amazon.com, CDNow (www.cdnw.com), Peapod (www.peapod.com) and Virtual Vineyards (www.virtualvin.com) seized the

opportunity to become the first online retailers in their own specialty market segments of books, music, groceries and wine (Ali Farhoomand and Peter Lovelock, 2001).

Online shopping appeals the most to customers who lack the patience to shop in brick and mortar stores, those who lives in remote area, difficult to adjust their schedules around store hours and like to be well-informed before making purchases. They can easily conduct online price comparison as online stores are just a "click" away (Ali Farhoomand and Peter Lovelock, 2001).

According to Levy and Weitz (2001), Limayen et al. (2000), and Shim et al. (2001), purchasing via the internet is one of the most rapidly growing forms of shopping. In UK between year 2004 and 2005, online shopping community has grown 25.5 percent to reach 14.6 million consumers who bought £8.2 billion of goods from websites (www.bbc.co.uk). Similarly, USA consumers spent \$670 million on Cyber Monday in year 2006, which is 25 percent higher than year 2005 (www.usatoday.com).

Research done by Nielsen (2008), shown that for over 875 million consumers have shopped online and among them South Korea ranked number one where 99 percent of their internet users had shopped online, followed by United Kingdom (97 percent), Germany (97 percent), Japan (97 percent) and United States (94 percent). Furthermore, the most popular items purchased are books (41%), clothing/accessories/shoes (36%), video/DVDs/games (24%), airline tickets (24%) and electronic equipment (23%).

1.1.3 Online Shopping in Malaysia

Online shopping has becoming a new shopping trend in Malaysia. Lincoln Lee who is the Research Manager of IDC Malaysia telecommunications has forecasted the Internet business-to-consumer market which includes online shopping of goods and services will be reached US\$4.2bil (RM15.3bil) in year 2009 (Hung Yee and Kian Seong, 2009).

As mentioned earlier, Malaysian performed online purchased for product or service is representing 9.5 percent from Malaysian population in year 2008. This indicates that Malaysian still prefers to shop in brick-and-mortar shop where visit a shopping mall is one of their weekend activities (John and Jackie, 2001). With a small number of Malaysian shopping online, it means that there are still more rooms for improvement and enhancement need to be done by online retailer to attract more consumers to purchase their product or service.

The development of Multimedia Super Corridor (MSC) gradually, has attracted much attention on the development and implementation of Multimedia. Simultaneously, the use of multimedia in marketing products and services had increased in the local business activities. It highly believed that online marketing services can assist retailers in expanding their new markets. Retailers also able to provide extensive products and company information to their consumers and also offer value added consumer services (Ahasanul and Ali, 2006).

1.2 Research Problems

Shopping online will offer lots of benefits that consumers could not find shopping in a store. The reason is because the Internet is always open seven days a week, 24 hours a day and bargains can be numerous online. With just a click of a mouse, consumer can buy an airline ticket, book a hotel, purchase books, computer software, send flowers to a friend, or purchase their favourite fashions.

Despite considerable benefits of shopping online, the retailer also need to take into account the important of consumers' trust in shopping online. According to Sonja and Ewald (2003), online shopping is different from traditional shopping where it has a unique feature of uncertainty, anonymity and lack of control and potential opportunism. In example, consumers are required to reveals their personal details such as telephone number, home address, financial information such as credit card numbers and suffer from the risk of products or services not similar to the description on the website, and the risk of damage during the delivery process. Therefore, trust is an important factor in the buyer-seller relationships in electronic commerce (Sonja and Ewald, 2003).

Furthermore, Lee and Turban (2001) mentioned that trust is also one of the most frequently cited reasons for customers not willing to purchase online. Malaysian consumers still prefer to see, touch and feel and generally take a long time to trust online store. They normally will purchase a few small products before shopping for bigger amount and will ask many questions before finally making a purchase (Hung Yee and Kian Seong, 2009). Similarly stated by Hoffman et al. (1999), the reason

why online consumers have yet to shop online in large numbers is because they do not trust most web providers enough to engage in relational exchanges involving money and personal information. Hence, the retailer must develop a trustworthy relationship in order to increase sales on the internet and foster customer loyalty.

1.3 Research Questions

On basis of the above discussion, the following research questions have been formulated to be answered:

RQ1. What factors influence consumers' trust in online shopping?

RQ2. Does consumers' trust influence their decision to purchase online?

RQ3. Is the relationship between factors influencing consumers' trust to actual purchase mediated by consumers' trust?

1.4 Objectives of the Study

The objectives of this study are as follows:

1. To identify what factors influence consumers' trust in online shopping.
2. To examine whether trust influence consumers to purchase online.
3. To determine whether trust mediates the relationship between factors influencing consumers' trust in online shopping to actual purchase.

1.5 Purpose and Significant of the Study

The findings will help online retailer and also buyers or consumers on the importance of trust in the online marketing environment. From online retailer point of views, the result will provide an understanding of the behaviour or concern of online buyers as well as able to recognise the factors that influence consumers' trust. The finding could benefit online retailer where by using this knowledge, they could develop and implement effective strategies to build buyers' trust and consequently improve online sales. Furthermore, the findings can be applied as supporting basis for future strategy formulation to attract and persuade more internet users to purchase product via online and also retaining their existing customers.

Prior studies concluded that trust plays a relatively large role in determining consumers' behavioural intention (Lu and Zhou, 2007), while Alfhian, Syed and Ai-Yee (2009) in their research proved that trust in the Internet is highly positive related to willingness to purchase online. Therefore, it possible that greater trust between online retailer and buyers will influence buyers to actually purchase the products or services through online.

In addition, buyer could benefits from the positive effect following online retailer's strategies formulation to better enhance consumers' trust. In example, a online retailer will make sure security of system always protected, buyers personal information will not be used for other purpose and online retailer will coordinate with a well-known financial institutions as intermediary in payment. In overall, this

study may help in determine the factors that produce a safer environment for buyer when shopping online.

1.6 Scope of the Study

This study covers Malaysian consumer that is works or resides in Klang Valley. This place was chosen as the survey data since Klang Valley represent the rapid growth of ICT and network technologies. The study covers all consumers who had purchased online both male and female.

1.7 Organization of the Study

This study consists of five chapters as follows.

Chapter 1 the introduction of this study which covers the background, views on internet usage and online shopping in Malaysia, research problems, research questions, research objectives, the purpose and significance of the study, scope of the study, and lastly the organization of the study are explained.

Chapter 2 discuss the literature review of trust in relation to online shopping context, factors influencing consumers' trust in online shopping as independent variables, trust as mediating variable, actual purchase of online shopping as dependent variables and follows by prior studies on trust model.

Chapter 3 covers the research methodology of the study. This will explain the proposed model framework, hypotheses development, selection of the measures and questionnaire design, sampling design, data collection procedure, pre testing, and data analysis techniques.

Chapter 4 presents the results of this study which consists of instrument validity and reliability analysis as well as testing the hypotheses of this study.

Finally Chapter 5 concludes the study by summarizing the findings and compared with the research results reported by earlier researchers. It also provides suggestion for future study.

1.8 Conclusion

This chapter has outlined the fundamental structure of the study. It details the relevant literature surrounding the issues that leads to the research problems, the research questions and the objectives of the study. This study aims to identify what factors influence consumers' trust in online shopping, to examine whether trust influence consumers to purchase online and to determine whether trust mediates the relationship between factors influencing consumers' trust in online shopping to actual purchase. The following chapter will discuss on the relevant literature in relation to the objectives of the study.