

CHAPTER 1 INTRODUCTION

1.1 Introduction

Technological advancement in Internet technologies enables business enterprises regardless the physical location of store or factory to develop their business on a brand new marketing context. Unlike the traditional bricks and mortar marketplace, Internet technologies offer a virtual market place that opened up new paradigms for businesses across the world. As a result, businesses can be expanded to new market segments that previously unable to penetrate due to limited resources. The technological based business environment is commonly known as Electronic Commerce (e-commerce).

Most of the business enterprises, nowadays consider e-commerce as one of the market segment apart from the traditional market segmentation. E-commerce works hand in hand with traditional marketing initiative to achieve competitive advantage by utilizing internet technology as part of their overall marketing strategy. For the purpose of this study, we focus on one of the five types of e-commerce, which is business to consumer (B2C) as the business relationship framework to examine the antecedent of initial trust on the intention of purchase online. These business enterprises, also called Internet vendor as more appropriately showing their seller identity in the B2C Internet environment. Similarly, the individual that shop online is called Internet shopper to reflect the consumer identity.

According to Rosen A (2000), e-commerce is referred to any form of business activities for products and services, in which the parties interested to contact electronically rather than by physical contact. Business to consumer (B2C) is e-commerce between Internet vendors and Internet shoppers. Internet shoppers search and gather information, evaluate and compare, make purchase decision via a web-site make available by Internet vendors. Amazon.com is the world famous B2C e-commerce that selling books and CDs online via its interactive web-site. The popular B2C website in Malaysia includes AirAsia.com, Malaysiaairlines.com, and maybank2u.com. The former offers a platform for air travelers to purchase air ticket online, the later offer individual customer to shop for financial products and banking services.

E-commerce required an Internet based web-site to be developed by Internet vendors and make available onto the Internet as a replacement of physical store. The website serve as an interface between the business and customer, provide all relevant information from the range of enterprise background, description of products offered and services provided, and to a large extend, the website is embedded with customer purchase function and payment facility. In additions, web-site also provides other necessary features such helpline and search function to assist Internet shoppers to solve issues arise from Internet shopping. On the other hand, Internet vendors that own and operate the website are responsible for the design and presentations, and information published on the web-site. The Internet store may not be seem identical to regular customer as what they normally seem in the physical store due to visual effect of the Internet-based environment. Moreover, it is imperative to understand that access of a web-site is depends on the Internet

infrastructure provided by the Internet Service Provider (ISP) that is independent from Internet vendors.

The online business is able to provide customer a 24/7 service virtually everywhere in the world. Similarly, customer is able to perform Internet shopping without physically present in the retail outlet. Theoretically, Internet vendors should have enjoy revenue growth and market share expansion by utilizing the convenience of Internet shopping, however, a survey from Malaysia Communications and Multimedia Commission's (2008) report on Household Use of the Internet Survey 2008 did not showed the consistency of this beliefs. According to Geren *et al.*, (2003b) and Triandis (1980), many researchers found out that lack of trust from Internet shoppers is the major reason to prevent them from making purchases from Internet vendors.

1.2 ICT and e-commerce in Malaysia

Since 1995, Information and Communications Technology (ICT) has received much attention by the Malaysian government as part of the initiative in achieving Vision 2020. Industry related to ICT has seen growth rapidly and expansion in Malaysia in the past 15 years. Several factors have contributed to the growth of ICT in Malaysia, including global influences on ICT, domestic economy growth in the Country, increase in educational and training in ICT as part of the governmental policy in economy planning and intellectual development in this field. Malaysian government has initiated numerous projects to support the development of the ICT industry. Launching of Multimedia Super Corridor (MSC) is one of the significant milestones in

the effort of the government to shift from the Industrial Age to a Digital Information Age.

Malaysian Institute of Microelectronic System (MIMOS) is the Malaysia first Internet Service Provider. In 1990, MIMOS launched the network known as Joint Advanced Integrated Networking (JARING). In November 1996, Telekom Malaysia was given a license to launch the second ISP, known as TMNet. The competition resulted in declining charges for Internet usage that make Internet more affordable to Malaysian public. According to Sankaran (2001), the survey showed the number of Internet subscribers from 50, 176 in 1996 to about 300,000 at the end of 1999. The increase of Internet population shows the success of the government's initiative in popularization of Internet adoption among Malaysian society. In 2003, Malaysia's Internet population has reached 8.6 million or 37.1 per cent from the total population according to Kaur (2005). However, Kaur (2005) further comment that despite of the rapid growth of Internet population by average 19.9 per cent per annual from the year 2002 to 2007, the percentage from Internet population who buys online was remain low in 28.4 per cent.

Apart from the infrastructures development on ICT, Malaysian government has also developed legal frameworks including established a new Ministry of Energy, Communications and Multimedia to create awareness and promote an understanding ICT. In addition, specific sets of laws covering the applications of Internet have been introduced, known as Cyber Laws, and enacted in 1997. They include the Computer Crimes Act 1997, the Digital Signatures Act 1997, the Telemedicine Act 1997, and The Malaysia Communications and Multimedia Act

1998 was also enacted. The government recognized the rapidly changing and convergent environment of the ICT industry. Therefore, the Communications and Multimedia Commission was established to work closely with the industry to promote and facilitate self-regulation mechanisms to ensure the civil society plays a responsible role on consumer and content matters. The protection of consumer rights is a major issue in e-commerce that involves transactions on monetary and exchange of ownership or property rights.

The establishment of both infrastructure and legal frameworks are imperative in the development of e-commerce in Malaysia. Nonetheless, the internet adoption of Malaysian public is a preliminary issue before acceptance of e-commerce as an alternative trading platform. On the other hand, the awareness and understanding of the general public on the legal frameworks and the level of confidence in those laws, particularly enforcement, is important in the development of e-commerce in Malaysia.

1.3 An overview of Internet shopping in Malaysia

In the last decade, use of the Internet is becoming popular in Malaysia. This can be evidenced by Malaysia Communications and Multimedia Commission's (2008) report on Household Use of the Internet Survey 2008. As depicted in **Table 1.1**, the two major reasons that Malaysian Internet users went online were to get information (94.4 percent) and to communicate (84.7 percent). Only 31.8 percent do Internet banking activities while 5.9 percent do online stock trading. In short, the report shows that although there has been a significant increase in the number of Malaysian internet

users over the past decade, but only a modest fraction of those users have engaged in financial or monetary related activities, for instance online banking, online stock trading over the internet. The rapid growth in the Internet use in Malaysia augurs well for e-commerce, businesses are attempting to gain competitive advantage by using e-commerce to interact with customers. However, Malaysian Internet shoppers are less interested in making purchase via Internet according to the survey.

Hoffman *et al.*, (1999) identified one of the most often cited reasons for consumers not purchasing from Internet shops is the lack of trust, which stops or discourages consumers from entering into exchange relationships with Internet shops. Furthermore, consumers have not widely adopted e-commerce, primarily because of trust-related issues (Hoffman *et al.*, 1999; Palmer, Bailey, and Faraj, 2000; Pavlou, 2002/03). Therefore, the influence of trust on consumer online transaction activities is fundamental in predicting e-commerce adoption (Gefen, 2002; Pavlou, 2001-2002). It is conceivable that the reason for consumers' hesitancy to purchase online is related to their lack of trust in Internet vendors. Pavlou (2003) stated the open nature of the Internet environments is relevant to the acceptance of e-commerce and consumers' purchase intentions. Furthermore, concerns about privacy and security underscore the importance of trust (Chellappa and Pavlou, 2002). In fact, Salam *et al.*, (2005) stated that lack of consumer trust is a critical obstacle to the success of Internet shopping.

Table 1.1: Percentage share of household user base

Percentage share of household user base (%)			
Internet usage	2005	2006	2008
Getting information	40.5	84.5	94.4
Communications by text	99.6	80.7	84.7
Leisure	47.1	52.6	63.5
Education	46.8	45.9	64.5
Financial activities	14.6	23.6	31.8
Public services	12.7	12.0	29.2
e-Government transactions*	-	-	19.8
Online stock trading*	-	-	5.9
Others	1.3	0.2	0.7

*no canvassed in 2005 and 2006 survey

Source: SKMM report 2008

It is reasonable to argue that the importance of trust has become elevated in e-commerce given the high degree of uncertainty present in most online transactions (Fung and Lee, 1999; Lee, 1998). In short, research shows that online trust plays an important role in creating satisfied and expected outcomes in Internet transactions (Wu and Cheng, 2005; Flavian and Guinaliu, 2006), as a result of that, Chen and Barnes (2007) concluded that online trust with online purchasing have a positive impact on purchase intention.

1.4 Problem statement and objectives of the study

According to Hoffman *et al.*, (1999), lack of trust is one of the most often cited reasons for Internet vendors not making any purchase from Internet vendors. Absent of trusting relationship stops or discourages Internet shopper from entering into exchange relationships with Internet vendors. The increase competition in the marketing of Internet shopping forcing Internet vendors to be more sensitive to the Internet shoppers' behavior, particularly on the formation of initial trust on Internet shopper that lead to minimize the perceived risk in dealing with them, and ultimately making a purchase via web-site. To understand the reasons people purchase online or offline required the understanding of consumers' behavior toward the intention to purchase online. Lack of trust in Internet vendors, on the other hand, increased the levels of perceived risk in Internet vendors.

In the online environment, it has shown that physical and temporal distance between Internet shoppers and Internet vendors create uncertainty (Pavlou, 2003) and ease of cheating (Gefen 2000) leading to high perceived risk. In the empirical search process in this study, little studies were found that to investigate the notion of initial trust. Many of them focus on the quality of web-site, service quality, and technology acceptance. Furthermore, most of the prior researches were focus on particularly business or Industry. This study is aimed to fill the gap of those researches by focusing the antecedent of initial trust formation on business to consumer (B2C) business relationship from an Internet vendor perspective. In other words, what are the factors that help Internet shoppers to form initial trust during their first visit of the web-site.

The issue of Internet trust has become a major factor why Internet shoppers do not purchase from the Internet vendor on the Internet. Therefore, this study seek to approach the issue of initial trust from the empirical perspective to come to a better understanding of what is the source of Internet shoppers' initial trust on the Internet vendor and what is the relationship between initial trust and intention to purchase online. In line with the problem statement, this study has two objectives, first, to examine and investigate the factors that influencing Malaysian Internet shoppers' initial trust formation in Internet shopping, second to investigate the relationship between initial trust in Internet shopping and the intention to purchase online.

The aim of the study is to increase our understanding of the antecedents of Malaysian Internet shoppers' initial trust in Internet Shopping. The purpose is to identify and determine the important factors, *i.e.*, perceived trusting beliefs on Internet vendors, perceived technical competence on Internet vendors, and perceived organizational compliance that affect the initial trust formation in the Internet shopping. Furthermore, the relationship between initial trust and intention to purchase online of Malaysian Internet shoppers in Internet shopping is explored to determine whether initial trust contributes to the intention to purchase online of Malaysian Internet shoppers in Internet Shopping. Finally, the effect of propensity to trust to initial trust in Internet shopping and intention to purchase online is explored to provide an insight of the relationship between the initial trust in Internet shopping and intention to purchase online.

1.5 Significance of the study

The findings of this research would give an exposition of theoretical contributions, so to expand the existing literature on the subject. This study is intended to investigate further the antecedents that influence the initial trust formation of Internet shoppers on intention to purchase online. The study also highlights the importance of Internet shopping characteristics and Internet shoppers' attitude on initial trust formation in Internet shopping. Internet shoppers' trust attitudes in Malaysia can be further investigated to determine the areas that most significant on initial trust formation. In addition, the study will investigate the relationship between trust and intention to purchase online.

Internet shoppers (potential buyers) and Internet vendors (institutions or business manager of the Internet business) will be benefited from this study by better understanding the consumer behavior in Internet shopping. Furthermore, the results of this research will provide Internet vendors with a better understanding of the important factors that influence the attitude of Internet shoppers on initial trust formation, so to enable them to focus on the areas that strategically engender trust attitude. Internet vendors may improve their overall marketing strategy in recruitment of Internet shoppers to increase the traffics of their web-site to achieve the final intention of Internet shoppers purchase online without hesitation.

1.6 Organisation of the study

This dissertation is organized in six chapters. The organization of the study is as follows:

Chapter 1: This chapter covers the introduction of e-commerce and Internet shopping in Malaysia, problem statement and research objectives, and significance of the study.

Chapter 2: This chapter presents studies from consumer online behavior and technology, Internet shopping and trust and reviews of the literature on antecedents and factors that influence trust formation in Internet shopping and development of conceptual framework.

Chapter 3: This chapter discusses a number of empirically testable hypotheses and describes the development and operationalisation of each of the constructs contained within the survey instrument.

Chapter 4: This chapter covers research and instrument design, results of sampling, and preliminary analysis of characteristics of the variables scores.

Chapter 5: This chapter presents the results of data analysis from descriptive analysis, and PLS structural model testing.

Chapter 6: This chapter focus on the in dept discussion of the results, conclusion, implementations and recommendations of the study, contributions of the study and suggestion of future research.

References and appendixes are included in the end of this paper.