

CHAPTER 1 INTRODUCTION

1.1 Background of the Study

Shopping has become one of the secondary needs for people as time progresses. The shopping is usually done by traveling to the nearest shopping mall or stores. This however, slowly becomes inconvenient over time due to the necessary travel cost as well as the travelling time. This is where the role of the technology becomes important. The development of technology has allowed people to become connected online regardless of the place and time. The integration of technology within shopping activity has resulted in the trend of Online Shopping and created the activity of E-commerce. Online shopping also includes the process of customers buying products or services from the online sellers or vendors in real time.

According to Haubl and Trifts (2000); the concept of online shopping consists of doing an activity of shopping through an interface such as computers, where it connects the computer of the customer and the online retail shops that can also be interacted through a network, or in this case the Internet via World Wide Web (WWW). The customers can be on any place at any time, but Haubl and Trifts (2000) has the concept of online shopping under the assumption that the wanted product is not currently present there in real time. In other words, online shopping is a process of costumers buying products or services from the online sellers by using interfaces such as computers by connecting to the web store of the seller directly through the use of Internet network, where the customers are only facing the interface and there are no presence of the wanted products physically at the same time.

According to Zhou *et al.* (2007); the advantage of online shopping for the customers involve convenience, various number of options, relatively low prices, an original service, personal attention, and the ease of accessing information. The Online Shopping activity can be done much faster and cost-effective compared to the regular shopping activity that mainly requires the shopper to travel to the designated place, and thus increasing the growth of E-commerce activity.

According to Hugh Harsono on *techcrunch.com*, Indonesia will be Asia's next biggest E-commerce market (Hugh Harsono, 2016), Indonesia has presented many opportunities for E-commerce among the other emerging Asian country economies with current projections of the nation's E-market at \$130 billion by year 2020, which is the third place after China and India respectively. It is also estimated that with the annual growth rate of 50% and strong initiative of using mobile; the retailers have unique opportunities in Indonesia on focusing towards developing mobile platforms in order to facilitate the growth of the E-market, particularly in the sector of Consumer Packaged Goods (CPG).

Regarding the current E-commerce market of Indonesia, it is similar to the early stage of China's online marketplace, which mainly consists of large number of entrepreneur sellers that provide goods that are purchased mostly based on the recommendations from social media. The activity of E-commerce in Indonesia is also similar to the early times of U.S. E-market, which consists of customers being wary towards the trust of doing online payments and towards online retailers as well. Indonesia has a unique potential to create a hybrid between the America and China's economies on the E-commerce resulting in the biggest opportunities for taking Indonesian online marketplace towards the global level.

According to the report from *StatCounter*; Indonesia has established itself as one of Asia's prominent nations with a mobile-first initiative with the report estimating that in 2015, more than 70% of Indonesia's internet traffic is originated from mobile devices (StatCounter, 2017).

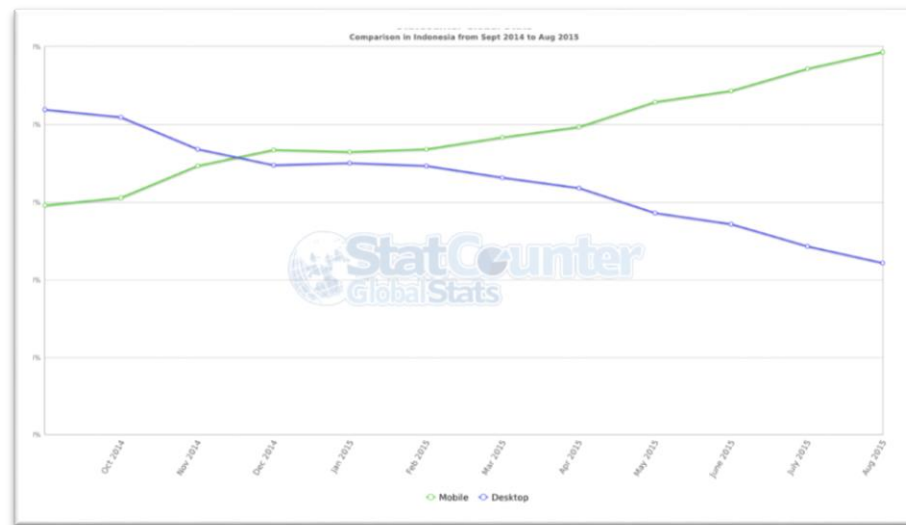


Figure 1.1, Image taken from: <http://gs.statcounter.com/#desktop+mobile-comparison-ID-monthly-201409-201508>

However, the consumers of Indonesia are still very wary of online payments, just like the Americans back in the early times of online marketplace. Many transactions of E-commerce in Indonesia are still done through either direct bank transfer or Cash on Delivery (COD), which is limiting the growth of E-commerce. According to *think-banking.org*; the Indonesians' spending rate is growing at nearly 10% annually and thus the Cash on Delivery or paying on the designated place based on the agreement between the customer and the seller, it will not be sustainable within a short time. Creating a trusted solution for utilizing online payment could increase growth for E-commerce, while assuring both small and big retailers to manage their business flow with efficiency. From the StatCounter's data; Indonesia has unique opportunities to become one of the largest space for E-commerce due to the large number of mobile internet users, and the fact that the nation has a weak internal infrastructure may give companies as well as individual sellers the potential to grow the markets of E-commerce. Also, growing middle-class customers with disposable income will help the spread and growth of the E-commerce which will increase the competition of the sellers within the E-market.

Regarding to customers' loyalty intentions towards online shopping; just like the other information systems, the success of online shopping depends largely

on the user' satisfaction and other factors that will eventually increase customers' loyalty intentions towards it (DeLone and McLean, 2003). The importance of loyalty intentions is apparent from the fact that the turnover from customers can be costly, because it will cost more to acquire new customers rather than retaining the existing ones (Hart *et al.* 1990, Reichheld and Schefter 2000). After knowing this, the online vendor or E-vendor should give some solutions in order to increase the satisfaction and loyalty intentions from the customers, and one approach that E-vendor can take is to improve the technological attributes of the online Website (Pavlou, 2003). Although by having a good technological attribute within the Website, it does not guarantee that the online shopping will be successful. Other approaches that the E-vendor can take are reducing uncertainty from customers (Pavlou, 2003) and development as well as maintaining the relationships between customer and vendor (Gefen *et al.* 2003).

The satisfaction refers to the assessment from the customers as well as their affective response towards the overall experience of online shopping. According to Patterson and Spreng (1997), affective response is known to be associated with intense states of desire that will lead towards a focused attention on specific targets, thus may impact the ongoing behavior. According to Oliver (1980), theorizes that satisfaction is positively associated with future intention, in both directly and indirectly by the impact towards attitude. The satisfaction will determine the intentions to patronize or not to patronize the store in the future (Swan and Trawick 1981).

Online Shopping also have higher rate of uncertainty for the customers compared to shopping to the physical store because online shopping does not have assurances for the physical thing that the customers will buy as well as lacking in the traditional shopping experiences (Grabner-Kraeuter, 2002). One of the issues in online shopping is the information asymmetry which cause the customers to have incomplete or incorrect information about the product (Ba and Pavlou, 2002), the process, the outcome, and the E-vendor (Grabner-Kraeuter, 2002). When there is uncertainty and information asymmetry, it is crucial to have fairness and trust

(Kumar *et al.* 1995, Ba and Pavlou 2002, Pavlou 2003, Diekmann *et al.* 2004) and is at the heart of relationships of all kinds (Lind *et al.* 1993, Morgan and Hunt 1994).

According to Pavlou and Fygenson (2006), trust is defined as the belief from the buyers that the seller will behave benevolently, capably, and ethically. According to the Theory of Reasoned Action (TRA) (Ajzen and Fishbein 1980), the trust beliefs can create favorable feelings towards online shopping. According to Morgan and Hunt (1994), trust is an important factor in consumer outcome evaluation; in which case that the trust from consumers towards the E-vendors will affect their satisfaction.

According to Uncertainty Management Model, the fairness can remove trust-related uncertainty and reduce the discomfort that the uncertainty would otherwise generate (Van den Bos and Lind, 2002). The fairness can be useful for explaining and understanding the feelings of trust or distrust of each individuals (Saunders and Thornhill, 2003), but the impact of fairness perceptions on customers' trust towards E-vendor are still unclear in online shopping. According to Marketing and Organisational Justice Researchers (Niehoff and Moorman 1993, Blodgett *et al.* 1997, Ramaswami and Singh 2003) have identified three dimensions of fairness: the first is the fairness of outcomes (distributive fairness), the fairness of decision-making procedures (procedural fairness), and the fairness of interpersonal treatment (interactional fairness).

The Distributive Fairness is often connected with the theory of Equity. The theory of Equity states that each individual who are rewarded fairly will gain satisfaction and will more likely to engage in a certain behavior (Adams 1965). According to Kumar *et al.* (1995), the distributive fairness can be helpful in building good relationships between the customers and vendors, and eventually can result in customers' satisfaction. According to Pillai *et al.* (2001); gives an argument consisting when outcome distributions are considered fair, then there are more likely of developing higher level of trust.

Procedural Fairness is about the perceived fairness of policies as well as the procedures within the online transaction activities. According to Seiders and Berry

(1998), the transaction process is an integral part of online shopping and the E-vendors can improve the customers' satisfaction with online shopping by doing activities can enhance customers' perceptions of procedural fairness. According to Folger and Greenberg (1985), has an argument of how the outcomes determined are more important than the actual outcomes. Previous research has indicated that if the consumers believe that the procedures used to produce the outcomes are fair, then they are more likely to be satisfied with the outcomes even if it is considered unfair (Lind and Tyler 1988). According to Folger and Konovsky 1989, Maxham and Netemeyer 2002; researchers suggest that the perception of procedural fairness can increase the probability of maintaining a long-term overall satisfaction between the relevant parties.

The Interactional Fairness is about when the customers feel they have been treated fairly by the customer service department throughout the process of online shopping. According to Cox and Dale (2002), online customers are often needed to contact the customer service through telephone or through other conventional communication means. An argument according to Cho *et al.* (2003) states that online consumers might encounter interactional fairness from customer service via telephone calls or responses from email. According to Nasir (2004); poor customer relations and service-related issues are mostly the major complaints from the online customers, and that shows how important the Interactional Fairness is as it have an important role regarding the success of online shopping.

The customers will mainly use the Website for purchasing the products and services online, as a form of Information Technology (IT). According to Davis, 1989; the acceptance and usage of Web application can be explained by Technology Acceptance Model (TAM) (Davis, 1989). TAM is usually used on systems within a workplace, but a recent research has proven that it can be applied in understanding online shopping (Gefen *et al.* 2003, Pavlou 2003, Vijayasarathy 2004). The loyalty intentions towards online shopping should consider the major variables of the Technology Acceptance Model, which are Perceived Usefulness and Perceived Ease of Use. The Technology Acceptance Model can state that the usage of Information Technology is a direct function of behavioral intention to use, which is

also a function of perceived usefulness and attitude towards the usage. Thus, the attitude towards usage is determined by perceived usefulness and perceived ease of use.

According to Davis (1989); the perceived usefulness is the degree in which a person believes that using a certain system would be able to improve the performance of his or her job and thus will improve the transaction performance. According to Ajzen and Fishbein (1980), the person that believes that doing the given behavior will result towards positive outcomes as well as holding a favorable feeling on performing the behavior. According to Davis *et al.* (1989), individuals will form loyalty intentions towards online shopping based mostly from a cognitive appraisal on how it will improve their shopping performance. According to Bhattacharjee (2001), an individual is more likely to develop favorable feelings of satisfaction and the intention for continuous usage when the given usage is perceived to be useful. Customers accomplishing the task of shopping and acquiring the product in an efficient manner will more likely to make the customer to develop stronger repurchase intentions (Babin and babin 2001).

The perceived ease of use is the degree in which a person believes that using a certain system would be free of effort. The Technology Acceptance Model was supposedly to predict the users' initial adoption of a new Information Technology, but the argument from Bhattacharjee (2001) has stated that the long-term validity of an Information System and its actual success depends on the continuous usage from the users instead of the initial adoption. According to Davis *et al.* (1989), stated an argument of improvements in ease of use may also be instrumental, and is contributing towards increasing the performance. According to Venkatesh and Davis (2000), increased ease of use can lead to improved performance, and that the ease of use would have a direct effect on perceived usefulness.

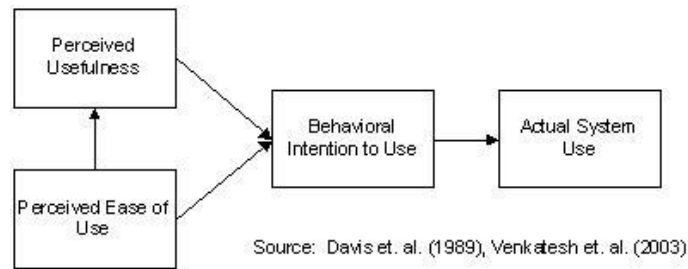


Figure 1.2, The Technology Acceptance Mode, image taken from:
https://is.theorizeit.org/wiki/Technology_acceptance_model

Online shopping involves the use of Internet; in which case if each individual have many experience, it might drive them to do online transactions (Pavloi *et al.* 2007). The Internet Experience can be considered as a control variable towards loyalty intention. Another control variable based from the reference article is the Shopping Experience; in which the number of online transactions from a customer is also controlled, since the shopping experience might have an impact towards future online shopping intentions (Shim *et al.* 2001).

The online shopping website in this research will mainly focus on Lazada, which is a part of the Lazada Group. The website itself is privately owned by a German E-commerce company and is specifically founded by Rocket Internet in 2011. From April 2016, Lazada Group is majority-owned by the Alibaba Group, a Chinese E-commerce company and the current headquarter of Lazada Group is in Singapore. Lazada's business area is in the Southeast Asia, in which they plan to take the advantage of the new and growing online customers market as well as the fact of the low awareness of Amazon, one of the largest E-commerce companies from America. As of year 2014, Lazada Group has operation sites in Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam. Their website was launched in March 2012 and they have a business model of selling their available goods in the inventory to the customers from their own warehouses. In year 2013, they added a marketplace model that allowed third-party retailers to sell their products through the Lazada's website and the marketplace has accounted for 65% of its total sales by the end of 2014.

Lazada's website offers various kinds of products that range from electronics, fashion items, household appliances, automobiles, etc. The website also provides its own application for Android and iOS phones to help the customers to shop online in mobile. For the payment of the products; Lazada has provided Bank Transfer service for BCA, Mandiri, BNI, and other banks. The web also provides the Cash on Delivery payment method nationally for the customers who are still new in online shopping as well as the customers who are still unsure about buying their goods online. The delivery for most of the products is free of charge, and the delivery charge varies for different parts of the designated delivery areas. The international products delivery will take up to fifty days. The customers can also track their goods' delivery process through the website.

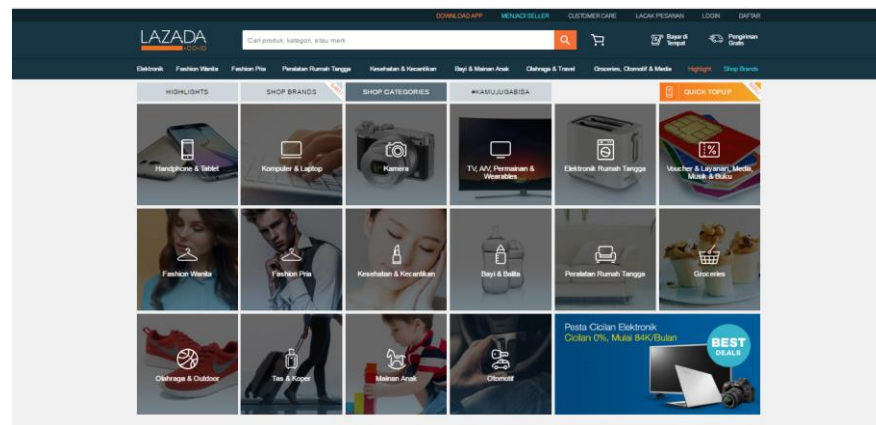


Figure 1.3, Lazada's website, image taken from:

<http://www.lazada.co.id/>

1.2 Research Problems

1. Does Distributive Fairness have a significant effect on Trust on Lazada website in Surabaya?
2. Does Distributive Fairness have a significant effect on Satisfaction on Lazada website in Surabaya?
3. Does Procedural Fairness have a significant effect on Trust on Lazada website in Surabaya?
4. Does Procedural Fairness have a significant effect on Satisfaction on Lazada website in Surabaya?

5. Does Interactional Fairness have a significant effect on Trust on Lazada website in Surabaya?
6. Does Interactional Fairness have a significant effect on Satisfaction on Lazada website in Surabaya?
7. Does Trust have a significant effect on Satisfaction on Lazada website in Surabaya?
8. Does Satisfaction have a significant effect on Loyalty Intention on Lazada website in Surabaya?
9. Does Perceived Usefulness have a significant effect on Loyalty Intention on Lazada website in Surabaya?
10. Does Perceived Usefulness have a significant effect on Satisfaction on Lazada website in Surabaya?
11. Does Perceived Ease of Use have a significant effect on Loyalty Intention on Lazada website in Surabaya?

1.3 Research Objectives

The purpose of this research is to study and explore the factors that make online customers of Lazada website to develop loyalty intentions after they have developed trust and satisfaction. The study also involves the analysis of three dimensions of fairness and two major factors of the Technology Acceptance Model (TAM). The variables that are analyzed in this study consists of Distributive Fairness, Procedural Fairness, Interactional Fairness, Trust, Satisfaction, Perceived Usefulness, and Perceived Ease of Use. Thus, the objectives of the research are the following:

1. To examine Distributive Fairness have a significant effect on Trust.
2. To examine Distributive Fairness have a significant effect on Satisfaction.
3. To examine Procedural Fairness have a significant effect on Trust.
4. To examine Procedural Fairness have a significant effect on Satisfaction.
5. To examine Interactional Fairness have a significant effect on Trust.
6. To examine Interactional Fairness have a significant effect on Satisfaction.
7. To examine Trust have a significant effect on Satisfaction.
8. To examine Satisfaction have a significant effect on Loyalty Intention.

9. To examine Perceived Usefulness have a significant effect on Satisfaction.
10. To examine Perceived Usefulness have a significant effect on Loyalty Intention.
11. To examine Perceived Ease of Use have a significant effect on Loyalty Intention.

1.4 Research Contributions

This study attempts to research about the customers' loyalty intention through the integration of the three fairness dimensions, trust, and satisfaction. The study may be beneficial for online business vendors who want to understand the factors that drive the customer to either buy or do not buy online beforehand and also having business models as well as revenues that are based on long-term and repeat sales of products and services. This study may also help the vendors to differentiate between online and offline consumers by identifying the two types of issues: the interface with E-vendors and the uncertainty rate. When online customers are compared with traditional customers that shops in bricks-and-mortar environment; the customers have higher rate of uncertainty about the shop, the vendor, the products' quality, and the settlement performance within the online shopping environment (Tan and Thoen 2001).

The study may also be beneficial for the current and future researchers on the same topic to understand more about the online shopping behavior by including the uncertainty from the customers within the online shopping activity, such as the trust and fairness. The study also focus on the relations between the Technology Acceptance Model, the three fairness dimensions, trust, and satisfaction on the online shopping activity and how it all leads to customers' loyalty intention.

1.5 Research Limitations

The research will be conducted by primary research method in order to obtain direct response from the target respondents for the questionnaires regarding the research topic and secondary research method in order to obtain the information about the necessary theories and examples about the research topic. The variables that will be studied and researched consist of the three fairness dimensions; which

are Distributive Fairness, Procedural Fairness, and Interactional Fairness. Then, the next variables are Trust and Satisfaction. The last ones consist of the major factors of TAM, which are Perceived Usefulness and Perceived Ease of Use.

The limitations of the research consist of: firstly, the research will only be done only in Surabaya which also includes the target respondents and that means the result of the survey may not be able to be applied outside the designated area. Secondly, the questionnaire will only be given online and that means some respondents are possible to skip through some questions or possible to give wrong answers either by mistake or purposely. Thirdly, the overall results of the survey may only apply to those who have the experience of shopping online in Lazada's website and may not be able to be generalized to the people who have not shop online on Lazada's website, as well as for the people who have no experience of shopping online yet. The fourth, the survey is only applicable and able to be completed only by the respondents who have interacted with the customer's experience before.

1.6 Research Outline

- Research outline explains the systematic writing of this study. The outline is divided into five chapters as follow:

Chapter 1

This chapter sets up the research problem for the reader. It also provides the background information defining the issue and important terms. It specifies the research objectives explored in greater detail to contribute to understanding the research problem.

Chapter 2

This chapter summarizes the major studies and findings that have been published on the research topic and how this study contributes or adds to what has been already studied. This chapter also states a clear description of theories that apply to the research problem, an explanation of why it is relevant, and how the modeling efforts address the hypothesis to be tested.

Chapter 3

This chapter explains the detailed technical and scientific activities which include the research design, sampling plan, instrumentation, statistical tools, and treatment of data.

Chapter 4

This chapter organized a logical presentation to the findings that address the research questions and focus on how these key findings relate back to the theory and prior researches presented at the beginning of the study.

Chapter 5

This chapter outlines the implications, conclusions, and recommendation supposed to advance the study of the research topic by its theoretical, methodological, substantive contributions that may be necessary to overcome the limitations of existing empirical facts.