The Moderating Role of Perceived Risk in Building Initial Trust Towards an Unknown Brand

Sandrine Sara EBENDE KOUEDI

University of Douala
ebendekouedi@yahoo.fr

Richard NKENE NDEME

University of Yaounde II
nkenendemerichard@gmail.com

Abstract

This paper aimed to study the moderating role of perceived risk on the relationship between initial trust on an unknown brand and its antecedents. To achieve this structural equation modelling was used. The results show that perceived risk has a moderating effect on the aforementioned relationship. Indeed, in the case of high perceived risk, the positive perception of some signals (advertising, word of mouth and country of origin) has a positive effect on I.T. Whereas in the case of low perceived risk, it is rather the positive perception of packaging, point of sale and word of mouth that has a positive effect on I.T. These results indicate that, when trying to build initial trust for their brand, brand owner should consider perceived risk.

Keywords: Perceived risk, Initial trust, Brand.

JEL classification: M31.

Introduction

Initial trust (I.T.) has been subject to abundant literature in a variety of contexts such as organizational context, electronic commerce context, service context, consumer goods context and consumer-brand relationship context. (Kim and Tadisina, 2007; Li, Hess and Valacich, 2008; Wood, Boles and Babin, 2008; Michaelis and al. 2008; Ebende and Gurviez, 2017). A close look at the literature makes us realise extant studies focused more on the antecedents of initial trust and its consequences. A review of the literature on the antecedents helps us highlight the following groups of factors: factors that relate to the seller, factors that relate to the site or the brand, factors that relate to the consumer, third party factors, institutional or structural factors and cognitive factors.

However, only a few works have focused on the role of perceived risk as a situational factor in building initial especially in contexts such as service and electronic commerce (Chouk, 2005; Michaelis and al., 2008; Johansen, Selart and Gronhaug, 2013). In the consumer-brand relationship context, the work of Ebende and Gurviez (2017) identified antecedents of initial trust for an unknown brand. But the role of perceived risk was not taken into account, no matter the fact that, according previous works, it is likely to moderate the relationship between initial trust and its antecedents.

This paper therefore aims to fill this gap by assessing the moderating role of perceived risk on the relationship between initial trust and its antecedents. After we have presented the concept of initial trust and its antecedents in the consumer-unknown brand relationship, we will analyse the moderating role of perceived risk. Thereafter we will detail the methodology. And, we will end up with the presentation and discussion of the main findings.

1. The concept of initial trust (I.T.) in consumer-unknown brand relationship

Occuring in the initial phase of the relationship, I.T. is a trust that emerges without prior direct experience with the product. It relies primarily on signals from the other party and is therefore fragile (McKnight, Kacmar & Choudhury, 2004; Wang, Beatty & Foxx, 2004; Robert, Dennis & Hung, 2009).

Several conceptualizations of I.T. have emerged from the literature including: I.T. as a will (Kim, Shin and Lee, 2009), I.T. as a belief, expectation or presumption (Kim and Tadisina, 2007; Ebende and Gurviez, 2017) and I.T. as a belief and a will (Eastlick & Lotz, 2011).

Using the conceptualization of Ebende and Gurviez (2017), we define I.T. on an unknown brand as trust in a brand with which the consumer has not had direct consumption or purchase experience. It reflects a presumption by the consumer that the unknown brand is credible (i.e. able to meet his needs and keep its promises).

2. Antecedents of I.T. in consumer-unknown brand relationship

The extant literature shows that I.T. towards an unknown brand results from the consumer's positive perception of two types of signals: the signals coming from the unknown brand and the signals coming from third parties (Ebende and Gurviez, 2017).

2.1. Signals coming from the unknown brand

Many signals come from the unknown brand and include:

- **Advertisement**

Some works suggest a positive relationship between advertising and I.T. (McKnight, Kacmar & Choudhury, 2004; Ebende & Gurviez, 2017). In particular, McKnight, Kacmar and Choudhury (2004) show that the provision by an unknown party of positive information through advertising positively influences I.T. towards that party. Likewise, Ebende and Gurviez (2017) think that, when advertising for an unknown brand is well designed and attractive, it increases the consumer's I.T. on the brand. Hence the following hypothesis:

H1: Positive perception of advertising for an unknown brand positively influences I.T. on the brand.

- **Point of sale**

Several studies find a positive relationship between perception of point of sale and perceived quality (e.g. Dodds, Monroe and Grewal, 1991). Others arrive at the conclusion that, when the consumer perceives the point of sale of an unknown brand positively, he is reassured on the brand's level of quality and this contributes to an improvement in I.T. on the brand (Ebende and Gurviez, 2017). Therefore, we formulate the following hypothesis:

H2: Positive perception of the point of sale of an unknown brand positively influences I.T. on that brand.

- **Country of origin**

Lala, Allred and Chakraborty (2009) found a positive relationship between perception of the country of origin and perceived quality. Other authors assume that country of origin has a positive influence on I.T. (Michaelis and al., 2008; Ebende and Gurviez, 2017). Indeed, this second group assumes that, when the consumer perceives the country of origin of an unknown brand positively, he tends to perceive the quality of this brand as good and also develops I.T. on it (Ebende and Gurviez , 2017). The following hypothesis can therefore be formulated:

H3: Positive perception of the country of origin of an unknown brand positively influences I.T. on that brand.

- **Price**

Researchers have established a positive relationship between price perception and perceived quality (Teas, Agarwal, 2000). For a huge number of consumers, price is an indicator of quality. Within the context of I.T, Ebende and Gurviez (2017) reveal a negative relationship

between price and I.T. Thus, we assume that, when consumers perceive the price of an unknown brand as high, they perceive the brand high quality brand. This likely improves their I.T. on the brand. Therefore, we propose the following hypothesis:

H4: Perception of high price for an unknown brand positively influences I.T. on that brand.

- **Packaging**

Underwood and Klein (2002) consider that, when consumers are unfamiliar with the intrinsic attributes of a product (e.g. the quality of a the product), packaging provides accessible information on which their evaluations is based. Thus, when the consumer perceives the packaging of an unknown brand as attractive and conveying useful information about the product, he feels reassured about the quality of this brand. This encourages him to develop I.T. on the brand (Ebende and Gurviez, 2017). Hence the following hypothesis:

H5: Positive perception of the packaging of an unknown brand positively influences I.T. on that brand.

2.2. Signals from third parties

Previous research shows that word of mouth (classical and electronic) is an antecedent to I.T. on the other party (Kim, Prabhakar, 2000; Chouk, 2005; Ebende and Gurviez, 2017). Moreover, Ebende and Gurviez (2017) conclude that, in the absence of prior direct experience with an unknown brand, the consumer can only resort to the opinions of third parties (family, friends, colleagues, experts in the field, etc.) to issue a judgment on the brand's credibility. When he perceives these opinions as positive, he will be tempted to assume that the unknown brand is credible and develop I.T. on the brand. Thus, we formulate the following hypothesis:

H6: Positive perception of word of mouth for an unknown brand positively influences I.T. on that brand.

3. The moderating role of perceived risk in the relationship between I.T on an unknown brand and its antecedents

Chouk (2005) and Michaelis and al. (2008) found that perceived risk moderates the relationship between signals from the other party and I.T. on that party, since the higher the perceived risk, the more the consumer will be looking for clues to ascertain the reliability of the other party. The effect of the signal on I.T. will therefore be more amplified the higher the perceived risk. That's why the following assumptions are made:

H7: Perceived risk has a moderating effect on the relationship between perception of signals from the unknown brand and I.T. on that brand.

H8: Perceived risk has a moderating effect on the relationship between perception of signals from third parties and I.T. on the unknown brand.

Figure 1 summarizes the links we postulate between the perception of signals from unknown brand and third parties, I.T. and perceived risk.

Figure 1. Research model
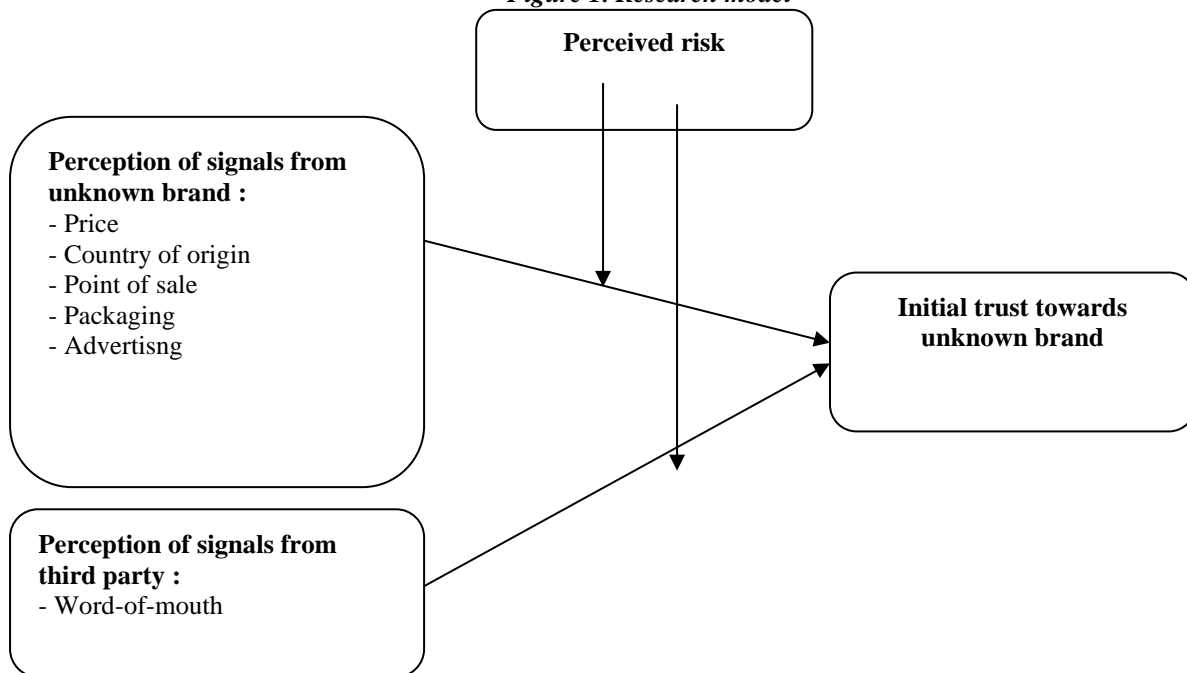
4. Methodology

This study focuses on anti-wrinkle creams which are experience products, since their quality can only be assessed after purchase and use (Nelson, 1970). Indeed, the literature has shown that the use of signals is particularly effective for such products (Kirmani and Rao, 2000). Thus, to test the conceptual model, an experiment which led us to offering consumers an anti-wrinkle cream brand (the "Revival" brand) that was unknown to them to date, was carried out. We put at their disposal signals from the brand which include: price, point of sale, advertising, packaging and country of origin. We also showed opinions of other customers and arelative to them on the page of an independent website (Ciao.fr). Finally, a built-up scenario which integrates these different signals was offered.

To measure the concepts in our model, scales from the literature were adapted they include: the perceived price of Yoo, Donthu and Lee (2000); Martin and Eroglu's perceived country of origin (1993); Lee's perceived publicity (2004); the perceived packaging of Chung, Yu and Pysarchik (2006); Wu and Petroshius' perceived point of sale (1987); the I.T. scale of Michaelis et al. (2008); the perceived risk on the Sempels product category (2005); perceived word- of-mouth from Lim and Beatty (2005) and Lee and Youn (2009). These measures are presented in. Also, reliability and validity tests were carried out to verify their psychometric qualities.

The survey was administered to a panel of online consumers selected on a convenience basis. Overall, 421 women from Europe, residing in France, aged at least 30, and who were still yet to purchase or use anti-wrinkle creams was considered. The choice of this sample is justified by the fact that it is homogeneous in its origin, it has not developed expertise in anti-wrinkle creams yet (according to Kirmani and Rao (2000), people who are not experts in a product category are an appropriate target for a signaling strategy), but it is likely to buy and use the product.

5. Results
5.1. The links between signals perception and I.T.

The structural equations method (SEM) was used to test the hypotheses. In general, the adjustment indices obtained are satisfactory, eventhough the GFI and the AGFI are below the thresholds recommended (that is 0.821 and 0.796 respectively). This is probably because of the low variance of most of the variables included in the model. The results of the structural model test are summarized in Table 1 below.

According to them, the positive perception of the country of origin, the point of sale, the packaging and word of mouth of the unknown brand positively influences the I.T. on the brand. By contrast, the perception of high price negatively influences I.T., whereas advertising seems not to influence I.T.

Table 1. Structural model test

Structural relations	Standardised coefficients	t Test	P
Perceived price ⟶ I.T	-0.183	-4.253	***
Country of origine image ⟶ I.T.	0.145	2.741	***
Perceived point of sale ⟶ I.T.	0.115	2.217	**
Perceived packaging ⟶ I.T.	0.277	3.008	***
Perceived advertising ⟶ I.T.	0.160	1.941	ns
Perceived word-of-mouth ⟶ I.T.	0.280	5.997	***

ns : non significant ; ** : significant at 5% ; *** : significant at 1%

5.2. The moderating role of perceived risk

In order to test the moderating effect of perceived risk, a multigroup analysis was carried out. To this effect, we built up groups of individuals according to their level of perceived risk (n = 171 for the low perceived risk group; and n = 250 for the high perceived risk group). The results presented in table 3 reveal that, the difference in Chi-square between the unconstrained model and the constrained model is significant. Thus, perceived risk seems to have a moderating effect on the structural relationships between positive perception of the signals from the unknown brand and third parties and I.T.

Table 2. Structural non-variance test between the two groups of perceived risk

	χ^2	Ddl	$\Delta\chi^2$	Δddl	p.	RMSEA	CFI
Unconstrained model	2068.70	1516	_	_	_	0.03	0.95
Constrained model	2088.27	1524	19.57	8	0.012	0.03	0.95

The overall fit of the multigroup model to the data is satisfactory. Indeed, the RMSEA, NNFI and CFI are within the thresholds recommended.

Table 3. Multi-group analysis of the effects of perceived risk

Structural relations	Low perceived risk			High perceived risk		
	γ std.	t Test	P	γ std.	t Test	P
Perceived price ⟶ I.T.	-0.224	-3.326	***	-0.106	-1.941	ns
Country of origin image ⟶ I.T.	-0.004	-0.053	ns	0.253	3.602	***
Perceived point of sale ⟶ I.T.	0.304	3.302	***	-0,089	-1.375	ns
Perceived packaging ⟶ I.T	0.583	3.643	***	-0.011	-0.091	ns
Perceived advertising ⟶ I.T.	-0.222	-1.774	ns	0.499	4.502	***
Perceived word-of-mouth ⟶ I.T.	0.275	4.125	***	0.293	4.579	***

ns : non significant ; ** : significant at 5% ; *** : significant at 1%

Table 3 shows differences in terms of the strength of the structural links between the two perceived risk groups. Indeed, when we move from low perceived risk to high perceived risk, the strength of some links between perception of signals and I.T. improves. This is the case for the links between positive perception of the country of origin and advertising with I.T. while the strength of other links between perception of signals and I.T. decreases. This is the case for the links between high price perception, positive perception of the point of sale and the packaging and I.T. Likewise, the movement from a low perceived risk to high perceived risk strengthens the link between positive perception of the signals from third parties (word of mouth on an unknown brand) and I.T. These results clearly describe the moderating effect of perceived risk.

6. Discussion of the results

- The multigroup analysis shows that perceived risk has a moderating effect on the relationship between perception of the signals from the unknown brand and I.T. More specifically, when moving from low perceived risk to high perceived risk, the strength of some links between the perception of signals from the unknown brand and I.T. increases. We refer to links between the positive perception of the country of origin and advertising and I.T. This finding confirms the conclusions of Michaelis et al. (2008). Indeed, these authors show that in the case of low perceived risk, the positive perception of the country of origin has no influence on I.T. Also, when perceived risk is high, the positive perception of the country of origin positively influences I.T. Moreover, the strength of other links between the perception of signals from the unknown brand and I.T. diminishes. This is the case with links between the perception of high price, the positive perception of the point of sale and the packaging and I.T. This last result is surprising since one would have expected the strength of these links to increase as perceived risk increases. However, it can be explained as follows:

- When the perceived risk is high, the consumer needs to be reassured on the reliability and integrity of the unknown brand. To this effect, he uses, among others sources of information experts' advice (e.g. pharmacists). Unfortunately, however, there are usually no experts in drugstores. This undoubtedly explains the decrease in the strength of the link between positive perception of the point of sale and I.T. during the movement from low perceived risk to high perceived risk.

- The reasoning is the same as regards the link between positive perception of packaging and I.T. Indeed, when the risk perceived is high, the consumer is looking for the opinions of those who have already consumed the unknown brand in order to feel reassured about the reliability and integrity of this brand. As such, he will be less inclined to relying on packaging which is perceived instead as a marketing tool that the company uses to convey information that may likely be inaccurate (especially with regard to anti-wrinkle creams). This may explain the decrease in the strength of the relationship between positive perception of packaging and I.T. when moving from low to high perceived risk.

- The link between perception of high price and I.T. decreases for the same reason. Indeed, in a situation of high perceived risk, the consumer will be more likely to refer to the opinions of third parties than to the high price which can be perceived more as a marketing strategy rather than an indicator of reliability and integrity. Hence the decrease in the strength of the link between these two variables when moving from low to high perceived risk.

- The results of the multigroup analysis also reveal that the perceived risk related to the product category has a moderating effect on the relationship between perception of signals from third parties and I.T. More specifically, the shift from low to high perceived risk strengthens the link between positive perception of word of mouth and I.T. This result is in agreement with the work of Chouk (2005) which shows that when the perceived risk inherent

to purchase on the Internet is high (low), the presence of testimonials on the site has a stronger (less stronger) positive impact for this seller.

Conclusion

This paper explored the moderating role of perceived risk in the relationship between I.T. towards an unknown brand and its antecedents. The results obtained show that perceived risk has a moderating effect on this relationship. Indeed, in a situation of high perceived risk, the positive perception of certain signals has a positive impact on I.T. on the unknown brand: the positive perception of advertising, word of mouth and the country of origin of this brand. On the other hand, in the case of perceived low risk, it is rather the positive perception of the packaging, point of sale and word of mouth that has a positive impact on the I.T. towards that brand.

For managers, these results imply that they must assess the level of risk perceived by potential consumers in the product category; generate recommendation of the unknown brand by third parties regardless of the level of risk perceived in the product category; communicate the quality of the unknown brand through advertising and country of origin when the perceived risk in the product category is high; or packaging and point of sale when perceived risk is low.

Ultimately, although the study has highlighted the moderating role of perceived risk in the construction of I.T. on an unknown brand, it carries some theoretical and methodology limitations which are avenues for future research. At the theoretical level, the main limitation is failure to take into account certain variables in the conceptual model. In particular, we think of variables such as labels, opinions of consumers' associations and information reported on the unknown brand by the media. We also think of individual factors such as age, gender, innovativeness, risk aversion and the regulatory orientation of the consumer. It would therefore be interesting to enrich the conceptual model by including these variables. At Methodology level, the choice of a product category (anti-wrinkle creams) limits the generalization of the results. Consequently, it would be relevant to extend the study to other product categories (slimming food products, durable products (e.g., vehicles and televisions), etc.) in order to test the model again and find out whether the same results are achieved. Furthermore, although appropriate for a signaling strategy in the field of anti-wrinkle creams, our target population is, however, not representative of the French population enough. This limits the external validity of the research. A future avenue would therefore be to test the study's model with a representative sample from the French population.

References

CHOUK, I. (2005). *Déterminants de la confiance du consommateur vis-à-vis d'un marchand Internet non familier : une approche par le rôle des ti*ers. Thèse de doctorat en Sciences de Gestion, Université Paris IX Dauphine.

CHUNG, J-E., YU, J.P., & PYSARCHIK, D.T. (2006). Cue utilization to assess food product quality: a comparison of consumers and retailers in India. *International Review of Retail, Distribution and Consumer Research*, 16(2) 199-214.

DODDS, W.B., MONROE, K.B., & GREWAL, D. (1991). Effects of price, brand, and store information on buyers' product evaluations. *Journal of Marketing Research*, 28, 307-319.

EBENDE KOUEDI, S.S., & GURVIEZ, P. (2017). Formation de la confiance initiale envers une marque inconnue. *Revue Française du Marketing*, 260(2/4), 59-71.

JOHANSEN, S.T., SELART, M., & GRONHAUG, K. (2013). The effects of risk on initial trust formation. *Journal of Applied Social Psychology*, 43, 1185-1199.

KIM, E., & TADISINA, S. (2007). A model of customers' trust in e-business: micro-level inter-party trust formation. *Journal of Computer Information Systems*, 48(1), 88-104.

KIM, G., SHIN, B., & LEE, H.G. (2009). Understanding dynamics between initial trust and usage intentions of mobile banking. *Information Systems Journal*, 19, 283-311.

KIM, K., & PRABHAKAR, B. (2000). Initial trust, perceived risk and the adoption of internet banking. *Proceeding of the 21ˢᵗ International Conference on Information Systems*, Brisbane, Queensland, Australia, 537-543.

KIRMANI, A., & RAO, A.R. (2000). No pain, no gain: a critical review of the literature on signalling unobservable product quality. *Journal of Marketing*, 64, 66-79.

LALA, V., ALLRED, A.T., & CHAKRABORTY, G. (2009). A Multidimensional Scale for Measuring Country Image. *Journal of International Consumer Marketing*, 21, 51-66.

LEE, B.K. (2004). Corporate image examined in a Chinese-based context: a study of a young educated public in Hong Kong. *Journal of Public Relations Research*, 16(1) 1-34.

LEE, M., & YOUN, S. (2009). Electronic word of mouth (eWOM) How eWOM platforms influence consumer product judgement. *International Journal of Advertising*, 28(3) 473-499.

LI, X., HESS, T.J., & VALACICH, J.S. (2008). Why do we trust new technology? A study of initial trust formation with organizational information systems. *Journal of Strategic Information Systems*, 17, 39-71.

LIM, J.S., & BEATTY, S.E. (2005). The impact of inconsistent word of mouth on brand attitude. *Asia Pacific Advances in Consumer Research*, 6, 262-270.

MARTIN, I.M., & EROGLU, S. (1993). Measuring a multi-dimensional construct: country image. *Journal of Business Research*, 28, 191-210.

MCKNIGHT, D.H., KACMAR, C.J., & CHOUDHURY, V. (2004). Shifting factors and the ineffectiveness of third party assurance seals: a two-stage model of initial trust in a web business. *Electronic Markets*, 14(3), 252-266.

MICHAELIS, M., WOISETSCHLAGER, D.M., BACKHAUS, C., & AHLERT, D. (2008). The effects of country of origin and corporate reputation on initial trust: an experimental evaluation of the perception of polish consumers. *International Marketing Review*, 25(4), 404-422.

NELSON, P. (1970). Information and consumer behaviour. *Journal of Political Economy*, 78(2), 311-329.

ROBERT, L.P., DENNIS, A.R., & HUNG, Y-T. C. (2009). Individual swift trust and knowledge-based trust in face-to-face and virtual team members. *Journal of Management Information Systems*, 26(2), 241-279.

SEMPELS, C. (2005). *L'intangibilité d'une offre globale de services: conceptualisation, opérationnalisation, variables d'influence et impact sur le niveau de risque perçu.* Thèse de doctorat en Sciences de Gestion, Université catholique de Louvain.

TEAS, R.K., & AGARWAL, S. (2000). The effects of extrinsic product cues on consumers' perceptions of quality, sacrifice, and value. *Journal of the Academy of Marketing Science*, 28(2), 278-290.

UNDERWOOD, R.L., & KLEIN, N.M. (2002). Packaging as brand communication: effects of product pictures on consumer responses to the package and brand. *Journal of Marketing Theory and Practice*, 10(4), 58-68.

WANG, S., BEATTY, S.E., & FOXX, W. (2004). Signaling the trustworthiness of small online retailers. *Journal of Interactive Marketing*, 18(1), 53-69.

WOOD, J.A., BOLES, J.S., & BABIN, B.J. (2008). The formation of buyer's trust of the seller in an initial sales encounter. *Journal of Marketing Theory and Practice*, 16(1), 27-39.

WU, B.T.W., & PETROSHIUS, S.M. (1987). The halo effect in store image measurement. *Journal of the Academy of Marketing Science*, 15(3) 44-51.

www.etimm.ase.ro

YOO, B., DONTHU, N., & LEE, S. (2000). An examination of selected marketing mix elements and brand equity. *Journal of the Academy of Marketing Science*, 28(2) 195-211.