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## Research Article

### AN EMPIRICAL STUDY ON THE IMPACT OF RISK PERCEPTIONS ON 'ONLINE PURCHASE INTENTIONS'

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#### ABSTRACT

The purpose of this study is to examine the influence of online shopping experience on perception of specific types of risks associated with online shopping and how each type of risk perceptions influences online purchase intentions. A conceptual model was proposed to illustrate the relationships between online shopping experience and perceptions of product, financial, and privacy risks associated with online shopping, and how both experience and risk perceptions impact online purchase intentions. To investigate the hypotheses of the research, data was collected from online shopping users; a survey was conducted with a sample size of 100 online shoppers among consumers who previously purchased online and mainly from the main popular online stores in Chennai, methodology was done using SPSS 17 and Amos 18. The study revealed that convenience risk affects the online shopping behavior. The results also showed that the other three dimensions have no effect on online shopping. The study has an important managerial implication; it provides marketers with the importance of consumers risk perception in order to adopt adequate risk-reduction strategies in the internet shopping environment.

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#### INTRODUCTION

Despite the growing population of online shoppers, fifty-eight percent of Internet users describe online shopping as a frustrating, confusing, and overwhelming activity [Quelch and Klein, 1996]. In addition, high abandonment rate of online transactions continues to be a concern. Past research has found that a major inhibitor of online shopping is the uncertainty [Liang and Huang 1998], or perceived risk associated with online purchasing [Lee and Tan, 2003]. Emerging technologies offer consumers an additional channel for information, service and purchasing, as well as potentially increased choice, convenience, among retailers and cost savings. Online shopping has become a viable threat to traditional shopping channels, such as retail stores and catalogs in certain product areas. Furthermore, the Internet makes an unlimited range of products and services accessible for consumers all around the world, people can buy or sell virtually anything, at anytime, from anywhere, through online shopping (Quelch and Klein, 1996). People may feel a certain degree of risk when purchasing a product through the Internet. For example, consumers are worried that the Internet still has very little security with respect to using their credit cards and disclosing personal information or concerned about purchasing a product

from sellers without physically examining the products (Pallab, 1996).

Perceived risk is defined as the degree to which a person expresses uncertainty about a service or good and particularly, the consequence [Ko, et al., 2010]. Perceived risks associated with online shopping negatively influence online purchase intention and behavior [Maignan and Lukas, 1997]. There have been intensive studies of online shopping attitudes and behavior in recent years. Most of them have attempted to identify factors influencing or contributing to online shopping attitudes and behavior. These studies have all made important contributions to our understanding of the dynamics of online shopping field. Businesses are starting to adopt e-commerce business models and sell their products online. However, there is a lack of coherent understanding of the impact of perceived risks on online shopping in Chennai. The researcher aimed to in depth focus on perceived risks dimensions which are identified by prior studies, and incorporate these dimensions of perceived risks into a research model, and identify their effect on online shopping.

#### REVIEW OF LITERATURE

Perceived risks Shopping has long been regarded as a risky activity as shoppers may be uncertain of a purchase decision

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and the consequences of a poor decision [Bauer 1960]. In the online shopping context, the level of perceived risk may be magnified due to limited physical access to products and sales personnel [Claudia, 2012], thereby discouraging shoppers from purchasing via the Internet [Tasi and Yeh, 2010]. Yet, there is a lack of consensus regarding the identification of and relative impact of dimensions of perceived risk among studies regarding online shopping. Even though consumers perceive the Internet as offering a number of benefits, the Internet tends to magnify some of the uncertainties involved with any purchase process. Consumers perceive a higher level of risk when purchasing on the Internet compared with traditional retail formats (Lee and Tan, 2003). Perceived risk is defined as the potential for loss in pursuing a desired outcome while engaged in online shopping; it is a combination of uncertainty with the possibility of serious of outcome (Ko, et al., 2010).

Financial risk is the perception that a certain amount of money may be lost or required to make a product work properly. Also, it is defined as potential net loss of money, and includes consumers' sense of insecurity regarding online credit card usage, which has been evidenced as a major obstacle to online purchases (Maignan and Lukas, 1997). The Internet, just like any type of non-store shopping, makes it difficult to examine physical goods; consumers must rely upon somewhat limited information and pictures shown on the computer screen (Jarvenpaa and Tractinsky, 1999). Product risk is the perception that a product purchased may fail to function as originally expected (Kim et al., 2008). Potential loss of delivery associated with goods lost, goods damaged and sent to the wrong place after shopping (Dan et al., 2007). Consumers fear that delivery will be delayed due to various circumstances; the delivery company won't deliver within the time frame agreed with customers, or consumers fear that the goods may be damaged when handled and transported, or no proper packaging and handling during transportation (Claudia, 2012). Several authors have observed that the perceived risk in E-commerce has a negative effect on shopping behavior on the Internet, attitude toward usage behavior and intention to adopt E-commerce (Zhang et al., 2012).

In E-commerce the retail channel is the internet. The risk linked to the channel is usually greater than the risk linked to the seller in online shopping. Online buying may be associated with negative results that are not found in traditional commerce, such as consumer's inability to value the quality of the product directly, the lack of personal contact with a

salesperson, the costs of learning how to use the internet or site, the change from other channels to the electronic one, the generation of anxiety and stress for consumers who don't feel comfortable using the internet, the absence of interaction and social contact with other people, and security of payment and personal. While some buyers perceive electronic commerce as a risky and expensive way of buying, others value the advantages of e-commerce, such as the ease of information searching and of comparing products and prices.

Previous studies have argued that the following types of risks are usually involved in purchase decisions: financial risks, product risk, convenience risk, health risk, quality risk, time risk, delivery risk, after-sale risk, performance, psychological, social, and privacy risk, website design style and characteristics, and trust in the web site affect significantly online consumers' purchasing behavior (Martin and Camarero, 2009; Tasi and Yeh, 2010; Almousa, 2011; Javadi et al., 2012; Zhang et al., 2012). This research purposes four important perceived risk variables such as (financial risk, product risk, convenience risk and non delivery risk), affecting purchasing behavior were chosen in this research model according to traditional literature on them, and the empirical evidence obtained from online stores experts and customers.

Online shopping behavior (also called online buying behavior and Internet shopping behavior) refers to the process of purchasing products or services via the Internet. The process consists of five steps similar to those associated with traditional shopping behavior (Liang and Lai, 2000). Many E-commerce studies have shown that consumer intentions to engage in online transactions are a significant predictor of consumers' actual participation in E-commerce transactions, the relationship between intention and behavior is based on the assumption that human beings attempt to make rational decisions based on the information available to them (Pavlou and Fygenson, 2006). Today online consumers have more control and bargaining power than consumers of physical stores because the Internet offers more interactivities between consumers and product providers as well as greater availability of information about products and services. Compared to physical stores, online stores have many advantages: They are convenient and time saving and no more traveling and waiting in lines is needed. They are open in all time and they are accessible anytime and anywhere.

**Table 1** Regression Analysis between Online shopping intention and Perceived risks Model Summary(b)

Model	R	R Square	Adjusted R Square	F	Sig.
1	.585(a)	.344	.340	10.320	.000(a)

**Coefficients(a)**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	1.320	.390		3.333	.001
	Financial Risk	.023	.091	.035	.272	.756
	Product Risk	-.106	.072	-.161	-1.493	.149
	Convenience Risk	.220	.087	.255	2.546	.015
	Non delivery Risk	.059	.105	.073	.584	.551
		.365	.092	.480	3.981	.000

## RESEARCH METHODOLOGY

The study is descriptive in nature and used a survey method. A structured non disguised questionnaire was used for collecting the data. The questionnaire had two constructs. The first construct measured the online shopping intention of the respondent (Tasi and Yeh, 2010). The second construct was to identify the perceived risks (financial risk, product risk, convenience risk and non delivery risk) of the respondents (Javadi et al. (2012). They were measured on a five-point scale ranging from 1 strongly disagree to 5 strongly agree. Result showed that Cronbach's alpha for perceived risk (independent variables) = 0.921, Cronbach's Alpha for online shopping (dependent variable) = 0.832, Cronbach's Alpha for over all instruments = 0.941, and the Cronbach reliability coefficients of all variables were higher than the minimum cutoff score of 0.60, offering good reliability of the questionnaire. Convenience sampling procedure was used for collecting the primary data. A total sample size of 100 was selected for the study.

### Analysis

#### Dependent Variable: Online purchase Intention

This table provides the Multiple Correlation ( $R = .585$ ), the Multiple Correlation squared ( $R^2 = .354$ ), the adjusted Multiple Correlation squared ( $\text{adj.}R^2 = .340$ ), and the Standard Error of the Estimate. The multiple correlations refer to the combined correlation of each predictor with the outcome. The multiple correlations squared represent the amount of variance in the outcome which is accounted for by the predictors; here, 34.4% of the variance in Online shopping intention is accounted for by Financial Risk, product risk, Convenience risk and non delivery risk. However, the multiple correlation squared is a bit pessimistic, and therefore, the adjusted  $R^2$  is less appropriate. The summary table, indicates that our model's  $R^2$  is significantly different from zero,  $F = 10.320$ ,  $p < 0.000$ . It is deduced from the coefficients table. This table provides the regression analysis that among the four independent variables taken for the study, only one item significantly influence Online shopping intention. Among the influencing items, "Convenience risk" has been considered the most influencing item. Let's focus on the four predictors, whether they are statistically significant and, if so, the direction of the relationship. The coefficient is positive which would indicate that 1 Antecedent is related to higher Online shopping intention. This result also makes sense. This would seem to indicate that the percentage of Online shopping intention with by Financial Risk, product risk, Convenience risk and non delivery risk. are predicting Online shopping intention. The coefficients table provides us with information on predictor variable (Online shopping intention). This meets our information need to predict perceived risks from Online shopping intention. Researcher can notice that the constant and Intention both contribute significantly to the model. An examination of  $\beta$  – values shows that 'Product Risk' ( $B = -0.108$ ) has a negative relationship.

Based on the above table following regression equation is formed.

$$\text{Online Purchase Intention} = 1.322 + 0.023 - 0.106 + 0.220 + 0.059 \text{ (Overall perceived Risk)}$$

The equation mentioned above points out that the independent variable, on overall perceived risk has predicted the Intention. It has been noticed that a positive relationship between Overall perceived risk and Intention and a very large portion of relationship exists.

### Suggestions

Online perceived risk is an important issue in e-commerce. This study showed that online shopping is still considered a risky proposition in spite of its numerous benefits. To reduce online consumers' perception of risk and to increase the possibility of purchase, e-marketers and e-retailers involved in an online shopping business should know the importance of convenience risk dimensions are of greatest concern to consumers in Chennai. The analysis for dimensions of consumer perceived risk in online shopping is a necessary step to know the contents and types of consumer perceived risk, which is considered to be one of the important factors that impact on consumer online shopping decision-making, and to provide e-marketers with useful information concerning their customers. Marketers need to understand the importance of consumers risk perception to adopt adequate risk-reduction strategies in the internet shopping environment. Online retailers should introduce a sound convenience mechanism that would improve safety and privacy to motivate people to buy online, or encourage customers to use special type of credit card for online shopping only separated from the consumer banking account, or using other payments method that doesn't require disclosure of credit card information such as payment on delivery, so customers should not be worry about losing their financial details and their credit card information. These conveniences enable the online buyers to develop a more complete reliability on E-purchase. Future studies may consider using a national sample which more accurately reflects the population of current and potential online shoppers.

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