Return Policy Leniency Impacting Customers' Purchase Intention – A Viable Strategy for E-Tailers?

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Abstract

Return policy can reduce e-commerce consumer returns by subjecting high-returning customers to a stricter return policy. Besides return behavior, purchase intention is affected. In an online survey of 197 participants, return policy leniency strongly influences purchase intention. Other variables, such as perceived trust, show a weaker impact on purchase intention than return policy directly. Managerially, this paper improves companies' understanding of how different return policies affect customer behavior. Academically, the research on return policy and purchase intention is complemented by examining three different return policy manifestations under control of trust, fairness, opportunism, and return difficulty.

1 Introduction

The importance of consumer returns is increasing due to the steady growth of the online B2C market. The measures associated with the COVID-19 pandemic further accelerated the expansion of e-commerce to new firms, business areas, and customers (OECD, 2020). Growing e-commerce also increases consumer returns (Xia & Zhang, 2010). Consumer returns cause high costs (Asdecker, 2015) and impact emissions (Khusainova, 2019).

Nevertheless, to increase customer satisfaction, retailers usually offer return policies (RP) characterized as lenient. Leniency means how conveniently a customer can return an item (Abdulla, Abbey, & Ketzenberg, 2019). We use two of the dimensions developed by Janakiraman, Syrdal, and Freling (2016): (1) Time leniency (how long can items be returned), and (2) monetary leniency (fees for shipping or returning), and add one more dimension, payment leniency.

RP influences customer behavior. Past research suggests that a generous return policy leads to more returns and orders du to more impulsive purchases (Lantz & Hjort, 2013). About 86 % of customers report that return policies influence their purchase decisions (Olick, 2019). Accordingly, return policy can reduce returns but equally increase sales (Bahn & Boyd, 2014). Abbey, Ketzenberg, and Metters (2018) show that a small proportion of customers are responsible for a large share of the total return volume. They advocate categorizing customers according to their return behavior and tailoring return policies accordingly. Nevertheless, how do individualized return policies influence purchase behavior? We aim to improve this understanding, taking into consideration confounding variables, with this research question:

How does return policy leniency influence an e-commerce customer's purchase intention?

2 Literature Background

For B2C returns management in general, we refer to a review by Abdulla et al. (2019), who pointed out return policy as an essential research subject. The following studies have investigated return policy in the context of purchase intention (PI). According to Bonifield, Cole, and Schultz (2010), customers exposed to more lenient return policies rate the retailer's quality higher and show increased PI. Hsieh (2013) find that lenient return policies and information credibility negatively impact perceived opportunism and positively impact trust, while perceived opportunism negatively affects trust, which influences stickiness intention positively. Pei, Paswan, and Yan (2014) state that return policy positively influences PI and perceived fairness, moderated by a higher reputation or lower competition among e-tailers. Perceived fairness positively affects perceived trust, which in turn has a positive effect on PI. According to Zhang, Li, Yan, and Johnston (2017), consumers perceive a return under a lenient policy as easier than under a more strict return policy, and thus, perceived return difficulty and perceived service quality positively influence PI. Oghazi, Karlsson, Hellström, and Hjort (2018) show that perceived return policy leniency positively influences PI with trust as a mediator, while a direct influence of leniency on PI cannot be confirmed. Wang, Anderson, Joo, and Huscroft (2020) conclude that leniency positively affects perceived fairness, perceived return service quality, and repurchase intention; perceived fairness and perceived service quality also positively impact consumers' repurchase intention.

The selected papers cover most of the return policy dimensions identified by Janakiraman et al. (2016) and suggest a direct influence of return policy on PI while uncovering other indirect relationships. However, leniency dimensions are primarily examined in separate studies or as different variables. We consider the return policy integrally and integrate the payment

dimension, which has not been mentioned in this research strand so far. E.g., paying by credit card elicits less pain than paying in cash because payment is decoupled from the timing of consumption (Prelec & Loewenstein, 1998). Garnefeld, Feider, and Boehm (2017) show that payment after receiving the goods increases returns compared to payment before delivery. Based on these considerations, we investigate the RP's influence on PI, perceived trust, fairness, return difficulty, and their interrelationships.

3 Hypotheses

In e-commerce, information asymmetries exist because physical distance causes uncertainties, and customers cannot evaluate items before purchase. Retailers can reduce asymmetries through a signal (Spence, 2002). According to Signaling Theory (Spence, 1973), signaling describes a signal sent by an agent observable by a principal to reduce pre-contractual information asymmetries (Kirmani & Rao, 2000). Since return policy leniency acts as an information mechanism in the relationship between online retailers and customers (Wang et al., 2020), this could reduce information asymmetries: For example, lenient return policies signal customers being able to act flexibly because they can avoid costs of a wrong purchase decision (Wood, 2001). Thus, leniency could positively influence PI. Pei et al. (2014), and Wang et al. (2020) support this assumption. Therefore, we hypothesize:

H1: Customers' purchase intention is positively associated with return policy leniency.

According to Equity Theory, perceived fairness results from the ratio between profit and investment in an exchange (Adams, 1965). Concerning Procedural Justice Theory as part of Equity Theory, people are interested in fair distribution and fair processes (Lind & Tyler, 1988). People prefer their own advantage or positive inequality (Bower & Maxham, 2012). We assume that customers value fair treatment and prefer a customer-friendly return policy. Customers feeling mistreated are less likely to shop at a retailer in the future and vice versa (Bower & Maxham, 2012). Pei et al. (2014) and Wang et al. (2020) indicate that return policy leniency positively influences perceived fairness, promoting PI. Accordingly, we hypothesize:

H2a: Customers' perceived fairness is positively associated with return policy leniency.

H2b: Customers' purchase intention is positively associated with perceived fairness.

Trust is crucial to reduce uncertainties in e-commerce (Hsieh, 2013). Trust is the willingness of a party to expose itself to the actions of a second party, anticipating that the second party will fulfill the expectations of the first party without control (Mayer, Davis, & Schoorman, 1995). According to Agency Theory, in a relationship between two or more economic entities in which a principal instructs an agent to perform a service, information asymmetries exist between buyers and sellers (Jensen & Meckling, 1976). By reducing incomplete information through a deliberate signal, higher trustworthiness could be achieved (Spence, 2002). Return policy leniency could represent this kind of signal. Oghazi et al. (2018) and Hsieh (2013) show a relationship between perceived trust and return policy. Therefore, we hypothesize:

H3a: Customers' perceived trust is positively associated with return policy leniency.

A lack of trust can harm attitudes toward e-commerce (McKnight, Choudhury, & Kacmar, 2002). Conversely, Kim and Peterson (2017) show that trust promotes PI. Pei et al. (2014) and Oghazi et al. (2018) confirm this relationship for return policies. Accordingly, it seems essential to foster trust for increasing future purchases. We hypothesize:

H3b: Customers' purchase intention is positively associated with perceived trust.

Adherence to fairness positively impacts trust (Bies & Tripp, 1995; Pei et al., 2014). Accordingly, a signal of fairness can reduce information asymmetries, leading to increased trust (Waterman & Meier, 1998). We hypothesize in the context of trust:

H3c: Customers' perceived trust is positively associated with perceived fairness.

In internet-based exchange relationships, online retailers may behave opportunistically (Liang, Laosethakul, Lloyd, & Xue, 2005). Opportunistic behavior describes the lack of honesty as well as pronounced self-interest in transactions (Williamson, 1975). In a buyer-seller relationship, the seller puts his own goals above the buyer's benefit (Hsieh, 2013). Information asymmetries between buyer and seller facilitate opportunistic behavior (Mishra, Heide, & Cort, 1998; Waterman & Meier, 1998). Hsieh (2013) shows that a lenient return policy contributes to mitigating perceived opportunism. Accordingly, this study conjectures that return policy leniency can counter perceived opportunism:

H3d: Customers' perceived opportunism is negatively associated with return policy leniency.

Li, Browne, and Wetherbe (2006) argue that credible behavior is perceived as reliable, but unmet expectations damage trust. Opportunistic behavior can be understood as an unmet expectation. Moreover, the retailer is assumed to behave opportunistically (Eisenhardt, 1989; Mishra et al., 1998). The signal sent to the customer to reduce information asymmetries may also be harmful (Connelly, Certo, Ireland, & Reutzel, 2011). Thus, this study assumes that opportunistic behavior harms trust. Li et al. (2006) and Hsieh (2013) describe a negative relationship between opportunism and trust. Consequently, we hypothesize:

H3e: Customers' perceived trust is negatively associated with perceived opportunism.

Perceived return difficulty is the customer's perceived inconvenience in returning an item to receive a refund (Zhang et al., 2017). Both return depth and return time impact the perceived return difficulty. For example, if customers perceive a potential return as difficult, they perceive an increased risk of unpredictable costs. Since customers tend to avoid wrong decisions preventively (Mitchell, 1999), we hypothesize:

H4a: Customers' perceived return difficulty is negatively associated with return policy leniency.

H4b: Customers' purchase intention is negatively associated with perceived return difficulty.

4 Methodology

4.1 Survey Description

For data collection, this research used an online survey conducted in February 2021. The questionnaire consists of three parts. Before the actual questionnaire, a virtual cover letter informs the participants about the survey's background and assures them anonymity. Next, we queried essential characteristics of the respondents. In the central part, each participant goes through two scenarios. The participants are asked to imagine purchasing an item from a fictitious online fashion retailer and to answer several items on PI, perceived fairness, perceived trust, perceived return difficulty, and perceived opportunism. Scenario 1 is balanced characterized by neither particularly strict nor lenient return policy elements. Scenario 2 involves one of three randomly assigned manipulations, i.e., either a strict, balanced, or lenient scenario (Garnefeld et al., 2017; Lantz & Hjort, 2013; Raghubir & Srivastava, 2008; Wood, 2001) (Table 1).

Table 1. Randomly Assigned Return Policies.

Scenario	Strict	Balanced	Lenient
Shipping costs	Yes	Yes	No
Return costs	Yes	No	No
Payment period	Immediate	14 days	30 days
Return period	14 days	30 days	100 days

1,214 participants started the survey, of which 302 subjects completed the questionnaire (24.9%). After removing 105 samples due to missing return experience or inconsistent responses, the final sample consists of 197 participants, almost all from Germany. The average age is 29.4; 58.9% had at least a college degree, 71.6% were female. The average completion time was 6.5 minutes. Regarding the gender imbalance in our sample, no significant differences for the mean and variance of the PI were observed.

4.2 Manipulation Check

A one-factor ANOVA checks the manipulation by the scenarios. In addition, post hoc tests provide information about which groups differ from each other, using the mean values of PI. The Levene test indicates that equality of variance between the groups can be assumed ($p>.05$). Significant differences in the mean values exist between all groups ($F=193.345$; $p<.001$). The Bonferroni posthoc test and the Scheffé procedure confirm the manipulation functionality. Thus, the subjects show a significantly different PI depending on the scenario.

4.3 Operationalization of Constructs

We tested the hypothesized relationships using structural equation modeling (SEM) to integrate multiple exogenous and endogenous latent and manifest variables (Ullman & Bentler, 2013). The focal constructs of our study, namely purchase intention (PI), perceived fairness (FA), perceived opportunism (OPP), perceived trust (TR), and return difficulty (DI), were operationalized with multi-item scales. We adopted them from existing studies showing statistical validity and reliability of these constructs (Table 2). All items were measured on a 5-point Likert type scale, ranging from 1 ("strongly disagree") to 5 ("strongly agree").

Table 2. Measurement Scales and Summary Statistics.

Construct	Source	Items used	Relia- bility	AVE	Sq. Multiple Correlation
PI	Kukar-Kinney, Xia, and Monroe (2007); Wang et al. (2020)	6	.98	.87	.945
FA	Pei et al. (2014); Kukar-Kinney et al. (2007)	4	.93	.77	.622
OPP	Hsieh (2013)	3	.88	.71	.319
TR	Hsieh (2013)	4	.95	.83	.674
DI	Jarvenpaa, Tractinsky, and Vitale (2000)	3	.96	.90	.542

4.4 Reliability and Validity Check

To check the unidimensionality of the item structure, we conducted an exploratory factor analysis for each construct (principal axis analysis and Promax). As a measure of sample adequacy, the Kaiser-Meyer-Olkin criteria of each construct all show values >.6 (Kaiser & Rice, 1974). Bartlett's test can be rejected for all constructs ($p < .001$), indicating data fit for analysis (Dziuban & Shirkey, 1974). Two items showed a communality <.5 and were not further considered. The results of the individual explorative factor analyses confirm the one-dimensionality of the constructs. Cronbach's alpha indicates high reliability on the construct level (Table 2).

We conducted a confirmatory factor analysis for parameter estimation to ensure reliability and validity based on the second-generation quality criteria. Since no construct correlation is >.9, no parameter is excluded. Indicator reliability for all items is >.4, so we assume acceptable reliability (Bagozzi & Baumgartner, 1994). Reliability at the construct level is determined by factor reliability. Factor reliability exceeds .6 for all constructs, confirming construct reliability. Since all constructs have an AVE>.5, we assume convergence validity (Fornell & Larcker, 1981). We assume construct validity for the reflective measurement models, as the requirements for discriminant validity are met according to the Fornell/Larcker criterion.

5   Results and Discussion

The SEM was estimated by the maximum-likelihood method (Table 3, Figure 1). The indices of the measurement model show an acceptable fit. All coefficients except for two are significant. 95% of the PI variance is explained by the model (Table 2). The standardized coefficients of DI to PI and TR to PI are significantly <.2, while all other standardized coefficients exceed this threshold for meaningfulness (Chin, 1998).
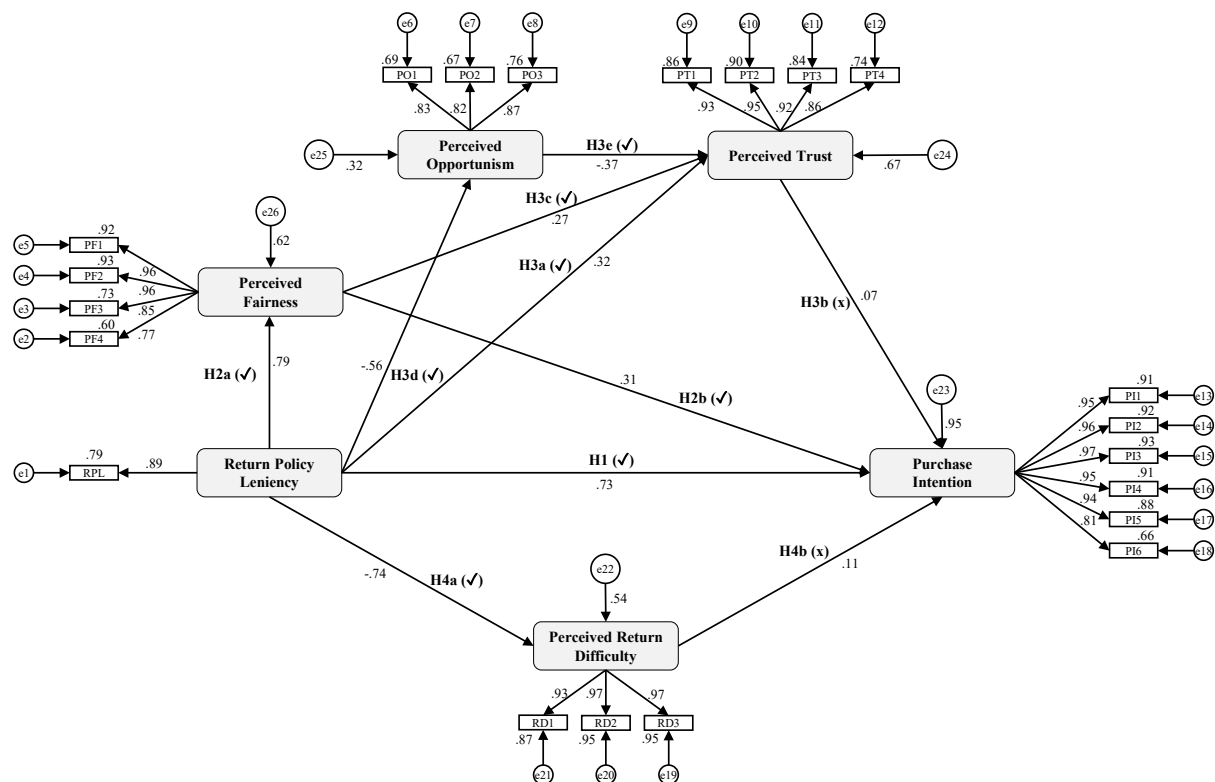

Figure 1. Research Model with Factor Loadings.

The largest significant positive coefficient in the model indicates that a more lenient return policy increases PI (1.323; p<.001). The data accordingly support H1. We suggest return policy leniency to signal quality and thus to reduce purchase decision conflict (Wood, 2001), which confirms the results of Pei et al. (2014) and Wang et al. (2020). The results also show that the more lenient the return policy, the fairer the customer feels treated (1.287; p<.001). In addition, higher perceived fairness positively affects PI (.341; p<.001). Thus, H2a and H2b are supported and confirm the findings of Pei et al. (2014) and Wang et al. (2020). H3a is confirmed by the data (.377; p=.003), supporting the research findings of Hsieh (2013) and Oghazi et al. (2018). Thus, lenient return policies appear to build trust. However, H3b and the results of Pei et al. (2014) and Oghazi et al. (2018) that trust positively affects PI cannot be

confirmed due to a slightly positive but insignificant effect (.111; p>.05). H3c is supported (.194; p=.003) in agreement with the results of Pei et al. (2014): Customers seem to repay fair treatment with trust in the online retailer. Furthermore, the data confirm (-.643; p<.001) that a more lenient return policy makes the customer perceive less opportunism from the online retailer. Moreover, we found that perceived opportunism significantly reduces perceived trust (-.376; p<.001). Consequently, H3d and H3e are supported, consistent with Li et al. (2006) and Hsieh (2013). Perceived return difficulty decreases significantly as the return policy becomes more lenient (-1.179; p<.001). Thus, H4a is supported, confirming the results of Zhang et al. (2017). We cannot confirm the postulated negative effect of the perceived return difficulty on PI. Contrary to the conjecture, the coefficient is positive but significant (.125; p=.021). The data do not support H4b, which contradicts the research of Zhang et al. (2017).

Table 3. Path Coefficients and Results of Hypothesis Tests.

Hypothesis	Path			Coefficient	SE	CR	Sign.	Conclusion
H1	PI	←	RP	1.323	.152	8.682	<.001	Support
H2a	FA	←	RP	1.287	.115	11.175	<.001	Support
H2b	PI	←	FA	.341	.066	5.132	<.001	Support
H3a	TR	←	RP	.377	.126	2.985	.003	Support
H3b	PI	←	TR	.111	.081	1.375	.169	Reject
H3c	TR	←	FA	.194	.065	2.967	.003	Support
H3d	OPP	←	RP	-.643	.088	-7.34	<.001	Support
H3e	TR	←	OPP	-.376	.07	-5.406	<.001	Support
H4a	DI	←	RP	-1.179	.102	-11.603	<.001	Support
H4b	PI	←	DI	.125	.054	2.301	.021	Reject

Fit indices: χ^2=368,447, df=180, χ^2/df=2.047, GFI=.836, CFI=.965, RMSEA=.074

6   Conclusion, Contribution, and Future Research

In summary, return policy leniency strongly influences PI and, at the same time, affects other variables, which influence PI partly and with smaller effect sizes. Return policy thus represents an instrument for influencing customer behavior not only regarding return behavior but rather pre-purchase. A lenient return policy can increase trust and the fairness perceived by the customer. In turn, it reduces the perceived opportunism and the perceived difficulty of a consumer return and can thus contribute to higher customer satisfaction. On the downside, as suggested by Abbey et al. (2018), individual and strict return policies can discourage unwanted customers already from purchasing.

This paper extends previous research on consumer return policy leniency by a more holistic approach integrating time, costs, and payment modalities, rather than focussing on individual parts of return policies. Moreover, this study formulates three different return policies and thus breaks the previous dichotomous view. Using SEM, we incorporate several influencing variables, which have already partially been investigated in this context.

From a managerial point of view, this study supports e-tailers in understanding the interdependencies between return policy and PI as well as other factors important to this relationship. For reducing consumer returns, individual return policies cannot be implemented without taking PI and other variables into consideration. Following the approach of individually adjusting the return policy of customers with excessive returns (Abbey et al., 2018), retailers must balance these trade-offs to determine the suitable level of leniency and the critical thresholds. This study reveals that a stricter return policy can significantly reduce future purchases, allowing to manipulate the structure of the customer base in a smoother way than closing down customer accounts (Safdar & Stevens, 2018). Vice versa, individually adjusted, more lenient conditions might increase future revenues of low-returning customers.

Nevertheless, the results hint at some future research required. A longitudinal study could validate the results in a non-pandemic context. In addition, our sample is restricted to the European market. Furthermore, we examine only two of the five return policy dimensions identified by Janakiraman et al. (2016). Overall, an integrated analysis of return policy effects on actual purchases and returns would supplement the findings of our study.

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