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*A Publication of Students' Research of the
Annual Research Symposium in Management*

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The Journal of ARSYM (JARSYM) is a refereed bi-annual journal committed to publish undergraduate research papers of the Faculty of Business Studies and Finance, Wayamba University of Sri Lanka. The JARSYM publishes theoretical and empirical papers spanning all the major research fields in business studies and finance. The aim of the JARSYM is to facilitate and encourage undergraduates by providing a platform to impart and share knowledge in the form of high quality and unique research papers.

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Customers' Perceived Risk Towards Their Online Shopping Intention: With Special Reference to Online Customers in Colombo District

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Abstract

The vast development of the Internet and the E-commerce has tremendously changed the consumers' lifestyles and purchasing habits via the use of online platform allowing more convenient and comfortable. By the way, some consumers avoid online shopping reasoning about perceived risk, despite the number of benefits. However, because Sri Lanka as a developing country, the percentage of customers who are familiar with online purchasing is significantly smaller than in other nations. Accordingly, this study focused on the impact of Perceived Risks on Online Shopping Intention of the Internet users in Colombo District. A deductive, cross sectional research autopsy was carried out using nine selected independent variables; Fraud Risk, Performance, Risk, Time Risk, Delivery Risk, Social Risk, Psychological Risk, Information Security Risk, Return Policy Risk, and General Risk. Data were collected through online delivered questionnaires among 400 online users. The study used descriptive statistics, correlation analysis and regression analysis analyze the data. As per the results, all the perceived risk elements were identified as significant in predicting the customers' online shopping intention. Among the significant factors Delivery Risk, Return Policy Risk, Fraud Risk and Time Risk were the top ranked influencer. The findings of this study aid in providing insight to retailers on how to entice customers to their online platform by lowering their perceived risk.

Key words: - *Online Shopping Intention, Perceived Risks, Sri Lanka*

1 INTRODUCTION

After the invention of the Internet, the world has become more convenient and closer. As well, the Internet is used in many industries, and fields to make the connections with internal parties and also with external parties, to operate a business and production process and to fulfill many purposes. Technological developments provide convenience for people, especially in business and more comfortable for people to do shopping online and do not need to leave home. Due to the complexity of present context people need to perform at least four or five careers (Madhusika and Dilshani, 2020) which reflect time saving is the most important consideration in modern lifestyle. In this manner people can simply use mobile phones with Internet connectivity which enables the option of fulfilling daily chores quickly and efficiently (Soegoto et al, 2018). Online purchase intention can be defined as a situation where a consumer is willing and intends to make online transactions (Pavlou, 2003).

According to the Computer Literacy Statistics Report of Department of Census and Statistics (2018), in Sri Lankan context, the computer literacy rate is 29 percent and digital literacy rate is 42.4%. However, 26.8 percent of the population aged 5 to 69 years uses the internet facility at least once during twelve months in 2018. In light of above, the amount of online shoppers is lesser than the digital literate population and computer literate population. Among the more general reasons such as lack of computer literacy, lack of proper infrastructure and poor E-consumer protection laws which directly cause to reduce the willingness to engage in E-commerce transactions.

In addition, online consumers face greater risk in the cyberspace when compared to traditional offline consumers, since they are dealing with unknown sellers and vendors. Nevertheless, the Electronic Transactions Act, No. 19 of 2006, the Consumer Affairs Authority Act, No. 9 of 2003 or any other legislation in Sri Lanka, do not address any specific issues faced by online consumers (Ariyaratne, 2018). Sri Lanka as a developing country, there is an obvious need to identify the motivating factors behind the online shopping as well as perceived obstacles faced in online shopping. Though there are many studies at global level done for investigating the perceived risk associated with online shopping intention, it is obvious that the cross cultural validation of the findings is questionable due to contextual variation in terms of the level of economic development, level of Internet access, customer buying behavior and especially cultural differences. Therefore the studies are needed to identify the risk perceived by the online shoppers in different contexts. Accordingly, present study was done with the intention of studying the impact of customers' perceived risk towards their online

shopping intention giving special reference to internet users in Colombo district, Sri Lanka. Colombo district was especially chosen. As per the Computer Literacy Statistics (2018) published by Department of Census and Statistic, high percent of Internet usage (44.9%), and E-mail using household population (26.4%) are in the Colombo district. So, online shopping is more active in Colombo district than other district in Sri Lanka. The ultimate findings of this study aid in providing insight to online retailers on how to entice customers to their online platform by lowering the different types of risks perceived by the customers.

2. LITERATURE REVIEW

2.1 Online Shopping Intention

Simply, purchasing intention means a condition between the customer and the seller when the customer is ready making a deal with the seller (Raza, et al, 2014). Online purchase intention can be defined as a situation where a consumer is willing and intends to make online transactions. (Pavlou, 2003). According to Ariffin, Mohan, & Goh, (2018), the online purchase intention is the consumers' readiness to purchase through the internet and making an actual purchase of goods and services or comparing the prices of products. As per Ariff, et al., (2014) online shopping intention involves a user accessing the internet to search, select, buy, use and dispose of goods and services in satisfying their needs and wants.

2.2 Perceived Risk

Risk is an important factor in consumer behavior, and it helps to explain information-seeking behavior and consumer purchasing decisions (Barnes et al., 2007). When there is a larger level of expected losses, it affects the higher degree of perceived risk among customers (Ariffin, Mohan, & Goh, 2018). Perceived risk is described as the prospect of losing money when seeking a desired outcome while purchasing online; it is a combination of ambiguity and the likelihood of a serious consequence (Ko, et. al., 2010).

Several researchers have discovered several sorts of risk associated with online shopping intent. The following are some common models introduced by researchers in their research. Naiyi, (2004) discovered the following risks connected with internet buying behavior in her study.

Fraud Risk: This element assesses a consumer's concerns about the dependability of an online supplier. It assesses an individual's apprehension about the online retailer's opportunistic behavior.

Delivery risk: This metric assesses a consumer's anxiety regarding product delivery. It addresses worries regarding product loss and damage, as well as incorrect delivery destination.

Financial risk: This metric assesses a consumer's fear of financial loss when purchasing on the Internet. It refers to lesser discounts in online purchasing when compared to traditional shopping, as well as delivery and online payment fees.

Process and time loss risk: This aspect assesses a consumer's assessment of the ease and convenience of Internet buying. It assesses a consumer's perceived complexity and annoyance in comparison to the intended online buying procedure.

Product risk: This element assesses a consumer's concern about a product's quality, performance, falsity, and product-related problems.

Privacy risk: This metric assesses a consumer's anxiety about the safety of personal information. It comprises a consumer's home address, phone number, e-mail address, and credit or debit card account number.

Information risk: This factor assesses a consumer's impression of asymmetric information regarding both sellers and products.

Source: Naiyi, Y.E. (2004)

In the meantime, Masoud (2013) has identified following 06 dimensions as the perceived risks for online shopping intention as follows.

Financial risk: Despite tremendous growth and an optimistic prognosis for future development in online buying, negative features are increasingly being connected with this alternative purchasing technique. Consumers, for example, are concerned that the Internet currently provides very little protection when it comes to using credit cards and divulging personal information.

Product risk: The Internet, like any other form of non-store buying, makes it impossible to scrutinize actual items; buyers must rely on rather restricted information and images displayed on a computer screen. And the cost suffered when a brand or product does not function as planned is partly attributable to the incapacity of online buyers to appropriately judge the quality of the goods.

Time risk: The notion that time, convenience, or effort will be lost if a purchased object is fixed or replaced. Time risk encompasses the inconvenience experienced

during online transactions, which is sometimes caused by trouble navigating and/or completing purchases, as well as delays in getting items.

Delivery risk: The danger of missing a delivery due to items being misplaced, damaged, or sent to the wrong location after purchase. Consumers are concerned that delivery will be delayed due to a variety of factors, such as the delivery company failing to deliver within the time frame agreed upon with customers, or consumers fearing that the goods will be damaged while being handled and transported, or there will be insufficient packaging and handling during transportation.

Social risk: The notion that a product purchased will be rejected by family or friends. It also refers to the potential loss of status in the consumer's social group as a result of the product's inappropriateness or disapproval of utilizing the internet as a purchasing channel. In order to decrease social risk, customers typically seek advice or approval from others in their social group.

Information security: Consumers may learn about the worth of items through website characteristics such as product information quality, transaction and delivery capability, and efficiency service quality; however, if no information security methods are in place, buy intention will suffer. This information security element can be properly utilized depending on the capacity of Internet merchants to match customers' expectations in the virtual buying environment.

Source: Masoud (2013)

In another research Ilmudeen, (2018), has stated following perceived risk dimensions.

Performance risk: The product doesn't perform as expected (e.g. quality, size, or defects).

Physical risk: The products have a negative effect on the body (quality, material).

Financial risk: Potential loss of the current cost as well as additional charges in future (e.g. possibility product may need to be repaired, be changed, or difficulty to get money back).

Sauce risk: False or fake online information causes that the product purchased online doesn't meet the expectations.

Security risk: Loss of money if the credit card information is hacked.

Delivery risk: Not receiving the product on time, long delivery time, or product being damaged during the delivery.

Time risk: Waste time researching information and purchasing when finally making a bad purchasing decision.

Social risk: The resistant/pressure from the friends or the family.

Psychological risk: Loss of self-esteem, or disappointment from the frustration of not achieving a buying goal.

Privacy risk: Personal information will be collected without user's consent when giving one's credit card number online or use of cookies and web bugs.

Source: Ilmudeen, (2018)

2.3 Perceived Risk and Online Shopping Intention

According to Thakur et al., (2015), consumers' perceived risk while considering online purchases is usually higher than when considering physical purchases, and that perceived risk is a helpful concept to rationalize barriers to online buying. According to Ariff et al. (2014), there is a negative influence of perceived risk on the attitude of online buying behavior, which includes product risk, financial risk, and non-delivery risk. Consumers that place a high value on the perceived risk of Internet purchaser are less likely to buy online, according to Doolin et al (2005). Each component in the consumer risk construct was significantly adversely linked to the volume of online transactions. A study conducted by Rizwan, et al (2014), have stated that there is a significant negative relationship between perceived risk and online purchasing attitude.

3 METHODOLOGY

The quantitative approach was used in this study. Research was based on a survey that adopts a self-administered questionnaire consisted with five point Likert scale. Consumers who are aged between 20 and 40 years and who live in Colombo district are taken as the population and according to the Computer Literacy Annual Report (2018), it includes 222,668 approximately. Data was collected through a Google form distributed among 400 Internet Users. To get results, researchers did

cross sectional analysis in a nature study environment with little intervention. The operationalization of the considered variables are presented in table 1.

Table 1: Operationalization of the Variables

Variable	Indicators	Measures
Fraud Risk	Untrustworthy websites	Most of the online shopping websites are not a reputed and well known.
		The websites can't be assessed directly online.
		Authorization mechanisms are not used by the most of the websites.
	Unclear/wrong information	Information on the websites are not very clear.
Performance Risk (PR)	Quality changes of the actual product	The actual product would differ from the displayed product.
		The product will not perform well because of the impact of climate or weather.
	Fails in performing the core usage	The product might fail to perform its intended purpose.
Time Risk (TR)	Waiting time	It takes too much time to receive the product.
	Lengthy Process	The process is too much lengthy, and it's better to buy from a physical store than no need to wait until product receives.
Delivery Risk (DR)	Service providers' incapability	It is difficult to contact the retailers making the orders.
		After sales services are not provided
		If there are any questions, no option to solve it.
		The seller/delivery person would not be able to hand over the product to the correct place without any damages.
		The websites are incapable of providing diversified delivery modes (post, express delivery, home delivery).
	Lost in delivery	The product may lose while delivering.
	Delay in delivery	The product will delay to deliver.
		Not able to receive it by the time.
Social Risk (SR)	Disapproval of the others.	Possibility to disapprove the selection from family/spouse.
	Feel irrational buyer	Afraid of being told that I'm an irrational buyer and I'm cheated by a seller.

Psychological Risk (PsyR)	Frustration or Disappointment about the wrong/failed selection.	Something goes wrong during the online shopping, it will cause to disappoint yourself
	Negative effect on peace of mind	Feel it is not worthy of waiting until the product received.
		Feel it is easier to buy from a physical store because you don't need to wait until the product received.
		Feel upset when people say that the product is cheaper in physical stores and you have been cheated by the seller
Information Security Risk (ISR)	Risk of identity theft	Feel it may harmful for revealing personal information (Contact numbers, email address, personal address etc.) on sellers' website.
	Credit card misuse probability	Don't like to enroll credit/debit card in sellers' websites because feels it might be hacked or misused
	Revealing the purchasing patterns/desires	Dislike to disclose what is buying, purchasing patterns and desires
Return Policy Risk (RPR)	Cash Back Guarantee	Feeling of possibility for loss of money without Cash Back Guarantee
	Difficulty with Returning product	The shipping cost to return the defected products is much higher.
		The seller doesn't allow returning.
General Risk (GR)	Complexity	Online shopping is complex compared to traditional shopping
	Intangible	Not get the ability on traditional shopping experience (touching, selling, tasting)
	More expensive	E-products are more expensive than sold in traditional retail stores.
	Unclear description	Websites don't describe/present enough information about the product features
Online Shopping Intention (OSI)	Ease of access	Can use online shopping at anytime, anywhere
	Ability to Compare	Can compare prices, benefits and value
	Reduce time spent	Reduce time for travelling, comparing.
		Avoid long queues.
	Lower Price	Lower priced products.

	Availability of large number of brands	Can select from various sellers. Number of brands to select.
	Easy and secured payment methods	Can use several payment methods as preferred.
	Low cost delivery	Can deliver to the doorstep with low cost or may free.
	Alternative channels	Can choose alternative distribution methods in order to lower the cost.
	Opinions/experience of past customers	Can make an understanding about the product performance.
	Trustworthy Sellers/Websites	Use trustworthy websites.
	Website Design	Attractive website design.
	User Interface	User friendly features.

Out of 400 delivered questionnaires 396 completed questionnaires were returned with the response rate of 99%. Cronbach's alpha values for all tested variables recorded more than 0.7 indicating excellent level of reliability according to Gliem & Gliem (2003). Pearson Correlation Analysis, Regression Analysis was used as the main analytical tools.

3 FINDINGS

When considering the Demographic characteristics of the respondents, the majority of the respondents were aged between 25 and 29 years and 52.5% of respondents were male. When considering the job category 228 out of 396 are from private sector organizations. The following table shows the summary of the data related to Internet Usage of the respondents.

Table 2: Internet Usage of the respondents

	Frequency	%
Frequency of Internet Usage		
Daily	388	98.0
Few Days Per Week	8	2.0

Device Used To Login To The Internet		
Smartphone	358	90.4
Laptop/Desktop	34	8.5
Tablet	4	1.1
Frequency of Online Shopping Terms		
Less Than 10 Times	185	46.7
10-20 Times	123	31.1
20-30 Times	63	15.9
30-40 Times	22	5.5
More Than 40 Times	3	0.8

Source: Survey Data, 2020

As per the table, 98% of respondents were daily Internet users. 90.4% of respondents are using Smartphones as the device to login to the Internet. The majority of the respondents shopped online less than 10 times, and only 0.8% of them shopped online more than 40 times.

Table 3: Pearson Correlation Analysis

Independent Variables	Pearson Correlation	Sig. (2 Tailed)
Fraud Risk (FR)	-0.933	0.000
Performance Risk (PR)	-0.926	0.000
Time Risk (TR)	-0.923	0.000
Delivery Risk (DR)	-0.941	0.000
Social Risk (SR)	-0.884	0.000
Psychological Risk (PSYR)	-0.883	0.000
Information Security Risk (ISR)	-0.928	0.000
Return Policy Risk (RPR)	-0.917	0.000
General Risk (GR)	-0.927	0.000

Source: Survey Data, 2020

According to Correlation analysis all the independent variables have negative yet significant relationship with Online Shopping Intention and among the all variables, delivery risk recorded the strongest association.

Regression Analysis

The following scatter diagram shows the relationship between the Perceived Risks and Online Shopping Intention. Perceived Risks is calculated by summing up the variables FR, PR, TR, DR, SR, PsyR, ISR, RPR, and GR. This diagram shows a

negative relationship between the dependent and independent variables. As well, this relationship can be determined and measured through the regression analysis.

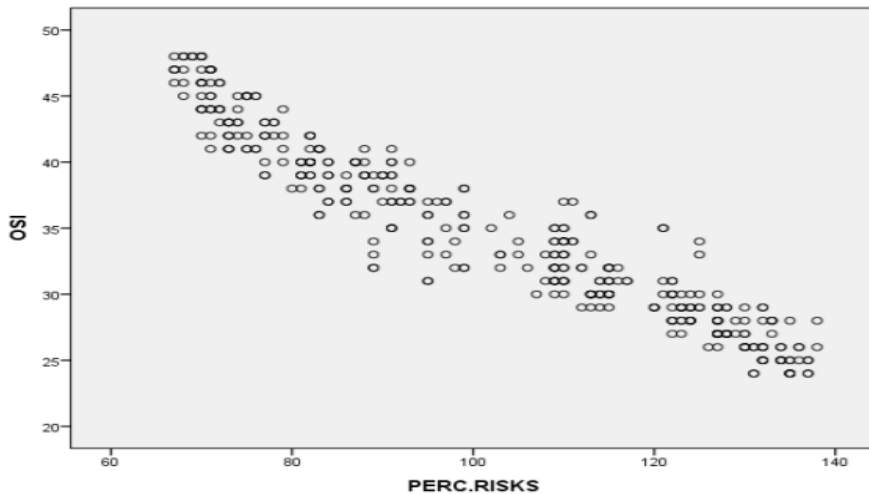


Figure 1: Scatter Diagram of Perceived Risks and Online Shopping Intention

The stepwise method is used in this study in order to identify the most influential variables. According to the Pearson Correlation Analysis done above, DR and the FR have the strongest relationship. Therefore, these two variables are tested first. Then regression analysis is done for other variables, one by one. Following figure shows the summary of the regression analysis.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.941 ^a	.885	.885	2.245
2	.953 ^b	.908	.908	2.007
3	.956 ^c	.914	.914	1.944
4	.958 ^d	.918	.917	1.904
5	.959 ^e	.920	.919	1.878
6	.960 ^f	.922	.921	1.866

a. Predictors: (Constant), DR

b. Predictors: (Constant), DR, GR

c. Predictors: (Constant), DR, GR, RPR

d. Predictors: (Constant), DR, GR, RPR, FR

e. Predictors: (Constant), DR, GR, RPR, FR, PsyR

f. Predictors: (Constant), DR, GR, RPR, FR, PsyR, TR

R² value represents the total variations of variables which explained by the regression model. 96.0% of total variation of variable DR, GR, RPR, FR, PsyR, and TR are represented by the regression model.

According to the results of multiple regression analysis it was revealed that only Delivery risk, General risk, Return policy risk, Fraud risk, Psychological risk and Time risk are significantly affected on customers' online purchasing intention while Performance risk, Social risk, and Information security risk are identified as the insignificant factors as their significance value is greater than 0.5. Among the significant factors, Fraud risk was the top ranked influencer. The ultimate results of multiple regression analysis are presented in table 4.

Table 4 – Result of Multiple Regression Analysis

Model	B	Std. Error	t	Sig.
Constant	66.548	0.749	88.908	.000
DR	-0.443	0.074	-6.023	.000
GR	-0.237	0.125	-1.897	.049
RPR	-0.465	0.204	-2.277	.023

FR	-0.498	0.115	-4.337	.000
PSYR	-0.382	0.120	-3.178	.002
TR	-0.496	0.198	-2.507	.013

Source: Survey Data, 2020

Based on the results, the regression formula can be derived as;

$$OSI = 66.548 - 0.498 FR - 0.496TR - 0.465RPR - 0.443 DR - 0.382PSyR - 0.237GR$$

Where,

OSI = Online Shopping Intention

FR = Fraud Risk

TR = Time Risk

RPR = Return Policy Risk

DR = Delivery Risk

PSYR = Psychological Risk

GR = General Risk

4 DISCUSSION

Nowadays, online shopping has become easier to find even the most difficult goods simply typing the name of an item or product using the Internet. Additionally, logistic companies are also being part of the online shopping process, making sure that products would be delivered at any destination in the world. Indeed, there are many benefits and advantages of online shopping and that's why individuals select to do this kind of shopping over traditional shopping. Despite the benefits of online shopping over traditional shopping and optimistic predictions for future growth of online shopping, negative aspects associated with this shopping method are also becoming critical. Present study tries to investigate the effect of perceived risk dimensions on the online shopping intention of the customers'.

The results of the quantitative study revealed that customers' online shopping intention is greatly affected by the perceived risk of purchasing. Among the tested perceived risk dimensions of Fraud Risk, Performance, Risk, Time Risk, Delivery

Risk, Social Risk, Psychological Risk, Information Security, Risk, Return Policy Risk, and General Risk, it was revealed only the Fraud Risk, Time Risk, Return Policy Risk, Delivery Risk, Psychological Risk and General Risk have the significant effect on online purchasing intention.

Under the delivery risk people have assumed that it may difficult to contact the seller after ordering and if they had any problem with the product they cannot solve it. Therefore, there is a need to increase the responsiveness of the sellers. And it would positively affect if the seller can provide after sale services for inland purchases. And also, people may look for diversified delivery methods to choose when they shop online, as their preference. Sellers have to diversify their delivery methods and make sure the product will be received by the correct time.

In terms of general risk, it implies that people do not tend to buy such things have to inspect by smelling, touching and tasting before purchasing. It may difficult to have only an online store for such kind of products. Therefore, it may result positively if the seller is also having a physical store. Under the Return Policy Risk, it may have to state that people do not tend to purchase if the seller does not allows return policy or cash back guarantees. Therefore, sellers have to ensure to return the defected products, or guarantee for cash back. And if the seller is abroad, shipping cost may higher return the products, even the seller allows returning.

In terms of return policy risk, it may have to state that people do not tend to purchase if the seller does not allows return policy or cash back guarantees. Therefore, sellers have to ensure to return the defected products, or guarantee for cash back. And if the seller in abroad, shipping cost may higher return the products, even the seller allows returning. In the Sri Lankan context, the government has to develop the most economical courier service; Sri Lanka Postal Service up to more effective and efficient courier service. Conclusively people do not tend to trust the sellers as much. Therefore, there should be enough laws and regulations such as online consumer protection act and online sellers regulating acts, in order to make the Internet users feel it is safe to shop online. And it may positively affect even to reduce the Psychological Risk. And also, the time that online consumers had to wait until the product receives should be reduced. Therefore the delivery systems should have to become more efficient and effective.

Limitations and Future Research Directions

The following limitations should be considered when interpreting the findings of this study. Also, these limitations might be used to guide future research. This study primarily collects data from customers in Colombo District and to the persons aged between 20 and 40 years. This might have an impact on the study's generalizability. Results may differ if the geographical area and the age of the population are changed. Therefore, future research may try to study in different geographical areas and different age categories. Moreover, as common method bias and nonresponse bias tend to harm all survey research, future studies can use a variety of ways to lessen their impact on the study's conclusions. Additionally, studies are welcome to be done to study the factors affecting Online Shopping Intention such as Online Consumer Protection, Digital Literacy and Computer Literacy, Website quality and Trust, and Discretionary Income and product types

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