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Consumer perceptions of risk and uncertainty and the implications for behaviour towards innovative retail services: The case of Internet Banking

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Abstract

Research on the consumer perceptions of innovative offerings has tended to focus on products as opposed to services. Perceived risk has generally not been awarded a major role while uncertainty, which is viewed here as distinct from risk, has for the most part been disregarded. The study reported in this paper strives to identify some of the major risks and uncertainties associated with a new service, Internet Banking, during the early stages of its market development. The empirical research involved a qualitative study of a small sample of consumers and a survey of both adopters and non-adopters of Internet Banking. The survey employed a traditional research instrument, which involved the presentation of pre-identified risks and uncertainties. It was possible to identify several major 'risks' as well as 'uncertainties'. We raise questions about whether or not the anxieties and concerns identified by such a process of consumer research are true reflections of the major influences affecting consumer behaviour towards new retail services. The adoption of a 'perceived risk' stance as against one founded on the view that consumers may lack certainty about outcomes and consequences has implications for both theory and practice.

Keywords: Innovation; Retail services; Consumer behaviour; Perceived risk; Uncertainty

1. Introduction

The provision of retail services is allegedly undergoing a revolution because of the impact of the Internet. In various aspects of retailing, technology would appear to be having a growing and significant impact not only as evidenced by increasing on line purchasing of goods and services, but also through the use of the Internet for information search and the adoption of such services as Internet Banking (IB). E-commerce in its various guises involves a significant change in behaviour and as such might be seen to be attended by risks and, in the early stages of diffusion, uncertainty.

Although initially the espousal of the Internet may have been seen as a means of securing a competitive advantage, many providers of various forms of retail services are now being compelled to adopt Internet based services because their competitors have. This is evident, for example, in the case of retail banking, where established players have added IB to their portfolio of traditional services, perhaps partly in response to the entry of new suppliers that depend solely on the provision of Internet based services. The large number of IB players provides greater credibility to what was clearly a significantly innovative service: IB may now in effect be regarded by consumers as 'normal'.

For the supplier being the innovator is attended by considerable risks: the costs of not attaining profitable levels of acceptance; possible adverse side effects; and the costs of developing the market only to see later entrants steal a march and secure high levels of market share and profits.

The consumer, too, is faced with considerable risks, especially during the early stage of an innovation's introduction, yet for the most part there has been a tendency not to acknowledge fully how these risks might

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affect customers' decision making with regard to innovative offerings. Indeed it has recently been argued that 'consumer research has forgotten about risk' (Johnson, 2004:2). Moreover despite the dominant importance of services in many Western economies, such as the UK, the emphasis of much of the research has tended to be on 'products' as opposed to 'services' (Mitchell, 1995), yet the latter may demand some adjustments in conceptualisation and practice.

The literature on the adoption and diffusion of consumer innovations assumes that there are product features and other factors which affect adoption behaviour. Much of the supporting evidence tends to be founded on research relating levels of adoption and the effects as actually realised, that is, the studies have tended to be undertaken using ex post data. Perhaps more pertinent is how the consumers regarded the innovation at the time they were considering whether or not to adopt, a question that might be especially relevant during the early life of the innovation. In the case of a significantly innovative offering, and especially where there is high involvement (Zaichkovsky, 1985), perceived risks can be expected to have a role.

Extant perspectives of consumer behaviour towards adoption and risk perception assume that it is possible to secure meaningful information. Thus one should be able to evaluate the innovation in terms of its benefits and costs. Research on perceived risk is predicated on the basis that consumers are able to make realistic assessments of both the effects and the likelihood of these occurring. However, in the case of any significant innovation, which involves the construction of new demand patterns and behaviour, useful and realistic information may be scarce; indeed there may be much speculation, contradictory intelligence, and lack of knowledge. Reassuring information may simply not be available.

Therefore if innovation is risky, it is also surrounded by uncertainty where it is difficult to envisage the outcomes, or all the range of effects, let alone assign probabilities or chances to them. Uncertainty in this sense is therefore clearly different from risk, yet there has been a tendency to conflate the two. Research on perceived risk is often based on the assumption that consumers have access to sufficient reliable and valid information to enable them to evaluate innovative offerings. Consumers are placed in a position where they are expected to provide their views on statements related to perceived risk when they may not have even reflected on the implications on which information is sought, let alone be informed enough to provide a realistic response. The inability to comprehend what might happen could be expected to have some bearing on how customers react to innovative opportunities and offerings, yet any consideration of uncertainty is generally bound up in the analysis of perceived risk.

Much of the previous research on risk has focused on frequently purchased packaged goods but with regard to many other consumer purchases, for example consumer durables, uncertainty may be much more relevant (Johnson, 2004). It is open to discussion whether or not an analysis of uncertainty as against risk will enhance our understanding of the consumer decision-making process.

The paper aims to analyse the risks and the uncertainties associated with the consumer decision to adopt an innovative retail service, IB, during the relatively early stages of its market development when there was little experience of its use and there were new entrants into the market. In theory, at least, there should be considerable uncertainty. IB has been a relatively recent innovation, has experienced a significant market penetration and some controversy, is generally regarded as having some risks, and has been undertaken in the context of changing consumer behaviour towards retail banking services.

IB is now regarded as a significant complementary channel of distribution to traditional forms of retail banking, especially through physical retail outlets. IB has however encountered significant consumer resistance. By understanding the risks and uncertainties associated with the diffusion of this specific new service, it may be possible to gain insights that can be generalised to other retail services.

The paper is structured as follows. We continue by considering briefly research on the received view of the consumer decision process with regard to innovation. In essence this is founded on the premise that there is sufficient available information that permits the consumer to make a reasoned judgement. It is hypothesised that there are at least two issues: first perceived risk may affect the consumer's evaluation of the innovation; second, the process of evaluation may be affected and even handicapped by the unavailability of uncontentious and reliable information.

We then consider traditional perspectives of perceived risk, noting that it is assumed that the consumer is in a position to comment on both the consequences of the decision to adopt an innovation and the likelihood of these occurring. We proceed by describing what Internet Banking means and the possible perceived risks and uncertainties associated with it. On the basis of small-scale exploratory qualitative research and a survey of 150 users and non-users of the service, we highlight how consumers perceive the risks and uncertainties associated with the new service. An analysis of the results suggests that for many of the issues the consumers encountered some uncertainty. The survey research was undertaken using a traditional research instrument that presents the participant with a potential set of issues rather than eliciting from them their perceptions of the new service. In this way, the researcher has been instrumental in constructing how consumers articulate how they regard IB. We conclude by suggesting that there is scope for embracing more fully the fact that consumers are often uncertain about innovative services and that there is a need for different research methodologies founded more on elicitation from consumers rather than imposition by academic and practitioner