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More is better than less? The influence mechanisms of e-sellers’ service guarantee

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Abstract: Service guarantee is a dilemma for e-sellers. As it will increase buyers’ purchase intentions, but it may leads to more return goods too. Our research makes an effort to study the influence mechanism of service guarantee, in order to help e-seller to make their retail decisions. The results of our empirical analysis indicate that the higher the strength of service guarantee is, the higher degree of the sales level is. Besides, service guarantee will influence the refund rate with inverse U-relationship. So it is necessary to select a reasonable level of service guarantee.

Keywords: online sales level, service guarantee, opportunism behavior, refund rate

1. INTRODUCTION

Nowadays, commitments, like “refund without reasons for seven days” in stores, “free repair for 100000 kilometers in five years” of car dealers, “three star price for five star services” in hotel, etc. can leads firms to focus on customers’ demands and decrease customers’ perceived risks so as to acquire new customers [1]. Some studies imply that different from indispensable product quality assurances, service guarantee can be adopted as the differentiated marketing strategy, which can improve firm performance and build a good image [2]. Considering the untouchable characteristics of the internet product, it becomes more difficult for online consumers to identify product quality due to the separation of information and products, sellers and buyers in physical places and other objective factors, that face to face communication is available for buyers. So service guarantee is widely used by e-sellers to lower customers perceived risk.

Service guarantee can help attract new customers. However, it may also bring about new operational risks. First, formal service guarantee may make customers suspect the provided services. Second, it may bring about firms too much compensation cost if services are guaranteed in a formal way [3]. Third, some service guarantee may induce customers’ opportunism motives and behaviors. For instance, nowadays, a new type of online customers called “Clothes Tenants” make branded merchants quite helpless, because they buy luxury clothing in stores, which guarantee “Refund without reasons for seven days”, and then refund it after wearing several days with the mere postage of 10 Yuan.

Overall, service guarantee positively affects service quality, firm performance. Nevertheless, service guarantee can also increase the cost and the difficulty of firms implementing them once they are abused by customers. Here we are going to focus on both the positive and negative effect of service guarantee on e-sellers’ performance.

From our empirical analysis of the problems above, we expect to provide thoughts for theoretical exploration in this field, and some reference for e-sellers on how to design more effective service guarantee and minimize abuses.

2. LITERATURE REVIEW AND HYPOTHESES

2.1 Service guarantee

Service guarantee formally began in a landmark article in 1988 by Hart who indicated that a strong service
guarantee is what puts the customer first [5]. There are several definitions of service guarantee in previous literatures, some of which important are listed as follows:

Service guarantee is a declaration or statement to define expected services and how to compensate when service failures occur [6].

Service guarantee is what services customers would receive and what firms will do if they cannot deliver service on time [7].

Service guarantee is the promise by a firm to provide a service level and customers will be compensated if the level is not met [8][9].

Although the definitions are expressed differently, the implications are almost the same. Based on these definitions, we define online service guarantee as the e-sellers’ promise to certain service standards to meet customer needs and compensation statements in case of service failure.

Moreover, there are few researches about service guarantee on the internet and most of the prior literatures focus on service guarantee in traditional industry, namely offline market. Based on the text analysis of service guarantee terms on Taobao (Taobao.com, China’s largest retail website), it is clear that service guarantee is widely used in online market and the compensation of service failure is higher in online market than that in offline market. For example, many online sellers afford refund postage if the customer utilizes the service guarantee of “refund without reasons for seven days”.

2.2 Service guarantee and firm performance

According to previous studies, service guarantee benefits firm in the following three aspects:

First, service guarantee can strengthen the relationship between firm and customer so as to improve customer satisfaction [10]. Service guarantee can also influence customers’ future expectations of satisfaction in two ways of alleviating perceived risk and improving perceived quality [4]. A research shows that service guarantee can increase consumers’ specific self-confidence, reduce consumers’ feelings of risk and increase satisfaction at last [11]. Besides, service guarantee positively affects consumers’ pre-purchase evaluations by enhancing consumers’ perceptions of quality [12]. However, another study indicates that service guarantee strengthens future purchase desire and does not influence the satisfaction after buying directly [1].

Second, service guarantee can be regard as a recovery strategy of a firm [13]. Service guarantee is a systematical and formalized tool to management service failure effectively and employees can handle the service failure problems by using it as a general standard [14].

Third, service guarantee has a positive effect on employee motivation that can in turn enhance employee’s service quality [8]. Another research shows that service guarantee as a performance standard of employees can boost their confidence level and sense of responsibility of employees. In a word, service guarantee plays an active role in inner quality control and management [1].

The summary above indicates that implement service guarantee can affect service quality of the firm and customer satisfaction to the firm. Moreover, firm profitability can be improved by high customer satisfaction [15] and high service quality [16]. To verify whether service guarantee plays a positive role in improving profitability of e-sellers, we put forward the following hypothesis:

$H_1$: Online service guarantee has positive significant effect on online sales level.

2.3 Opportunistic Behavior

Scholars define and evaluate opportunistic behavior from different perspectives. From the viewpoint of moral sociology, different from seeking or grabbing the opportunities, opportunism is self-interest seeking with guile, or even for immoral profits [17]. Other thinks that opportunism is using others’ mistakes or using some opportunities to make other mistake. In this case opportunism is valid in the war years [18]. In economic terms, opportunism is defined as executives increase its short-term and unilateral gains. Others could envy the one who
makes a profit from speculation. In modern society, we advocate fair and good faith transactions and the trust mechanism plays an especially major role in online business. Therefore, we define opportunistic behavior of consumers in moral sociology terms. That is, opportunistic behavior is the side that has the information superiority can gains the personal interest by being lazy and cheating when information are asymmetric between two sides of the transaction. Information asymmetry offers a hotbed for opportunistic behavior and corresponding benefit enhances motivation of opportunism.

Some scholars investigate factors of opportunistic behavior. They indicate that cultural background, consumer personal traits, uncertain transaction environment and bounded rationality, service programs unfairness, firm scale and relationship intensity between firm and customers are all important factors influencing opportunistic behavior. Others found that initiator of service guarantee and the strength of compensation also have significant effect on opportunistic behavior.

2.4 Service Guarantee and Opportunistic Behavior

Consumer opportunistic behavior, namely abuse of service guarantee is an unethical behavior that customers use service guarantee to cheat. Although previous studies indicated that consumer fraud is not the main problem for a successful service guarantee, quite a few firms believe that the existence of consumer opportunistic behavior is one of the difficulties to implement service guarantee and the implementation cost of service failure affect the success of service guarantee. Further study found that service guarantee gives customers the chance to ask for compensation, but not every unsatisfied customer will claim compensation and not every satisfied customer will not. Some research also indicates that unfair service program break customer psychological contract leads to customer unethical actions.

Scholars summarize three situations of opportunistic behavior caused by abusing service guarantee: lying to use service guarantee, violating service guarantee by intentionally using products in an improper way, buying product and service just for using service guarantee. Whereas on the Internet, they are correspondingly using “Refund without reasons” to refund, actually using product and service for free during the guarantee time, and intentionally buying the product that cannot be delivered for compensation. Therefore, the opportunistic behavior conducted by online consumers who take advantage of the “Refund without reasons” is more complex than that in the traditional environment. In order to clarify our research, we will use the concrete data of “the rate of refund without reasons” to represent the “Refund without reasons” and analyzes the relationship between service guarantee and e-sellers’ performance indicator.

An experimental research indicates: (1) Whether customers use service guarantee to cheat depends on customer’s self-control, firm–customer relationship rather than the profit level and ease of using. (2) Moreover, customers’ fraudulent behaviors are negatively affected by of the intent to repurchase, satisfaction level, self-control, ethical standards and awareness of personal rights. (3) In addition, the influential factors of consumer’s opportunistic behavior vary according to their cultural backgrounds and market conditions. Based on the prior literature, we can conclude that customer’s personal trait is one of the cardinal reasons that explain their opportunistic behavior. But whether the strength of service guarantee can affect consumer’s opportunistic behavior is still controversial. Some scholars indicate that the strength of service guarantee lead to opportunistic behavior inevitably while others indicate that the strength of service guarantee does not matters. Therefore, we put forward the following hypothesis:

H2: With the increase of the strength of service guarantee, the refund rate will be increase as an inverse U-relationship.

2.5 Research Model

According to hypotheses above, we put forward the following research model (see Figure 1). In the model, service guarantee has effect e-sellers performance that we will use online sales level and the rate of refund
without reasons to measure. Specifically, online sales level is the positive effect of service guarantee to firms and the refund rate is the negative effect.

![Diagram of Study Model](image)

**Figure 1. Study Model**

3. **METHODS**

3.1 **Sample**

There are several reasons why we collect our data from dress shops on Taobao. First, in 2012, Customer-to-Customer (C2C for short) sales of Taobao account for 70.2% [28] of the total transactions on the Internet. According to a recent survey, Taobao has become the most popular website in China, since its user penetration rate (refers to the shopping website users accounts for the proportion of the overall online shopping users) has reached to 80.7% which is far more than Tmall (54.7%), Vanc (9.5%) and other shopping websites [29]. Besides, 57.1% of the users only shop on Taobao[29]. Second, clothing is the most popular sale category of online purchases with 26.9% market share in 2012. By the end of 2011, the customer base of online clothing shopping market reaches up to 132 million, and the user penetration rate of online clothing shopping market is 68.1%. Third, dress is the largest market segment with its 41.1% share of clothing online shopping, far more than menswear (17.6%), and the others [30].

3.2 **Data**

We choose dress shops randomly from TaoBao to collect data about their description of service guarantee, sales in recent 30 days, total numbers of refund and the numbers of refund without reason in recent 30 days. We deal with this initial sample in following ways. (1) To make sure the representative of the sample, we chose 10 shops in every five of 100 pages that are the results of search by “dress” as the key word and rank with sales volume. (2) To make sure the comparability, we worked out refund rate based on the number of refund. (3) We eliminated observations with missing information of brand, sales or others. Finally, we get 163 observations.

3.3 **Measure**

3.3.1 **Dependent variable**

In this study, the two dependent variables are online sales level and the rate of refund without reasons. We measure online sales level by aggregating sales in recent 30 days and the refund rate by calculating the ratio of the numbers of refund without reason to total numbers of refund in recent 30 days.

3.3.2 **Independent variable**

Although our sample e-sellers all join the Consumer Protection Program, which has the service guarantee of “Refund without reasons”, the details are not all the same. Based on seller’s different compensation payments caused by service failure, we divide the strength of service guarantee into five levels. Specifically, 1 is the case of if the e-seller does not accept a refund, 2 if the e-seller accepts a refund under some certain conditions, 3 if the e-seller accepts refund but indicates fees, 4 if the e-seller accepts refund without indicating fees, and 5 if the e-seller accepts refund without reasons and affords all. We centered the strength of service guarantee of each
observation and got the independent variable.

### 3.3.3 Analysis Model

In sum, in order to analyze the influence of the strength of service guarantee on the online sales level and refund rate, we exploit the following analysis models for our study:

Our analysis models are showed as equation (1) and (2):

\[
OSL = c_1 + \beta_1SG + \varepsilon_1 \tag{1}
\]

\[
RR = c_2 + \beta_2SG^2 + \varepsilon_2 \tag{2}
\]

Where

OSL is online sales level, SG is centered the strength of service guarantee, RR is refund rate, \(C_i\) \((i=1, 2)\) are the constant, \(\beta_i\) \((i=1, 2)\) are regression coefficient and \(\varepsilon_i\) \((i=1, 2)\) are the residual error.

### 4. RESULTS

Table 1 summarizes means, standard deviations, and bivariate correlations among the variables. It shows that there is significant positive correlate between the strength of service guarantee and online sales level \((r=.168, p<.05)\).

<table>
<thead>
<tr>
<th>Table 1. Means, Standard Deviations, and Correlations</th>
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<tr>
<td>1. The strength of service guarantee</td>
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<tr>
<td>2. Online sales level</td>
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<tr>
<td>3. Refund rate</td>
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</tbody>
</table>

*Correlation is significant at the 0.05 level (2-tailed).*

According to our analysis models, we use SPSS20.0 to conduct liner regression analysis of all observations. The results in the second row of table2 show that the strength of service guarantee has positive significant effect on online sales level \((\text{Sig.} = .032)\), supporting Hypothesis 1. This indicates that the e-seller can promote their online sales level by providing higher strength of service guarantee.

Besides, the result in the third row of table 2 shows that the square of the strength of service guarantee has significant effect on refund rate \((\text{Sig.} = .013, \beta^2=-2.505)\), supporting Hypothesis 2. This indicates that the refund rate will increase first and then decrease with the enhancing of the strength of service guarantee.

<table>
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<tr>
<th>Table 2. Regression Result</th>
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<tr>
<td>\textbf{Dependent Variable}</td>
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<tr>
<td>Online Sales level</td>
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<tr>
<td>Refund Rate</td>
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### 5. DISCUSSION

#### 5.1 Conclusions and Implications

Service guarantee significantly and positively affects online sales. Therefore, when e-sellers provide the products and services to meet customer needs, they should pay attention to designing better service guarantee and enhance service quality.
Service guarantee does not always have positive significant effect on the rate of refund without reasons. When the strength of service guarantee is lower, it has significant positive effect on refund rate, which is negative to e-seller performance. However, there is negative significant effect on refund rate when it is higher enough. So e-sellers should think about the negative effect of service guarantee when they provide it. When design service guarantee, e-sellers should take customer opportunistic behavior caused by service guarantee into consideration and adopt a suitable strength of service guarantee. However, to improve operating performance, e-seller should adopt high strength of service guarantee without worrying about the following opportunistic behavior like refund without reasons.

5.2 Limitations and Future Directions

To simplify our study, we only investigate the relationships among service guarantee, sales level and refund rate in our model. However, other factors like firm scale, brand awareness, product quality which may also moderate the relationship between service guarantee and the two dependent variables are not considered in our study. Further researches could extend our additive model of the moderators to include the interactions among them. On the other hand, we do not take the factors like industry, price into consideration when we chose the objects of the study. For example, although in some industries of like book, appliance, the contents and implementation of service guarantee is also standardized. Nevertheless, opportunistic behavior such as clothes tenants is more likely to happen in the industry of low standardization and high price level. Further researches are necessary to investigate these two factors. What is more, a questionnaire study may be better choice, but we did not do that due to the limitation of the conditions.

REFERENCES


