

# TRAVELERS' RISK PERCEPTION AND CHOICE OF CANCELLATION POLICY: THE STIMULATING EFFECT OF RISK TRIGGERS

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## ABSTRACT

Risk perception is a strong indicator of consumer behavior, particularly in the tourism and hospitality context, because of its experiential nature. With consideration for this issue, this study used an experimental design to investigate the role of risk perception in travelers' choice of cancellation policy. The results showed that the intention of travelers to avail of free cancellation increased with risk perception and that such perception could be stimulated by either priming or risk cues featured in banner ads. The findings provide valuable insights into how hotel managers can increase revenue by effectively capitalizing on risk triggers.

**Keywords:** Cancellation Policy, Risk Cue, Risk Perception, Priming, Booking Intention

## INTRODUCTION

When booking a hotel room, travelers consider a number of attributes, such as location, price, facilities, and room type. Another such attribute is the cancellation policy offered by an accommodation provider. Generally, travelers can book accommodations that come with free cancellation at a premium price or with non-refundable features at a lower price [12]. Although each option has distinctive advantages and disadvantages, the free cancellation option offers insurance against the uncertainty of changes in future travel plans. By paying a risk premium, travelers can reduce pre-purchase risk and make decisions with confidence [10] [12].

Travelers' choice of cancellation policy reflects their risk perception; that is, the free cancellation option becomes more attractive as the perceived risk in decision making increases [13]. Travelers may be unaware of the risks involved in purchase, but priming can increase their self-perception as risk avoiders, which in turn, increases their intention to opt for free cancellation [8] [9]. Side-banner ads on the websites of online travel agencies (OTAs) also contribute to the formation of travelers' risk perception and their purchase decisions. Ads may be irrelevant information to travelers, but such information serves as a cue that spontaneously reminds them of potential risks that are associated with their travel plans [1] [9].

This research investigated the effects of risk perception on travelers' booking behaviors. The findings contribute to the literature on hotel booking decisions and provide practical solutions to hotel operators in terms of encouraging specific cancellation choices.

## LITERATURE REVIEW

### **Cancellation Policy**

A cancellation policy refers to specific terms and conditions that outline the rules and procedures for changing or canceling a reservation [11]. Although different hotels and travel agencies operate under their own terms and conditions, there are two commonly practiced cancellation policies: free cancellation and non-refundable booking. Hotel rooms offered under a free cancellation policy come at a standard rate but afford travelers the flexibility to change or cancel their reservations. In contrast, non-refundable booking offers travelers a discount on their reservation but prohibits changes or cancellations [5] [12]. Travelers can save money by booking a hotel at a non-refundable rate, but they appear to favor a free cancellation rate—a preference that has become more evident during the COVID-19 pandemic [17]. The question that arises, then, is what motivates travelers to choose free cancellation over a non-refundable option? Travel decisions are affected by a number of factors, among which risk perception is one that may directly influence the aforementioned preference [12].

### **Risk Perception**

Risk perception is an individual's subjective judgment about the potential uncertainty associated with negative outcomes in a situation [14]. Consistent with prospect theory [9], which predicts risk avoidance in decision making, empirical findings indicated that people weigh the value of losses (versus gains) more heavily and are therefore often motivated to make decisions in a way that avoids consequences rather than maximizes expected benefits [11] [12]. This tendency toward risk avoidance increases in prevalence as the level of perceived risk rises [10].

Travelers differ in their perceptions of and attitudes toward risk, with some seeing themselves as risk takers and others viewing themselves as risk avoiders. Research has explored a number of factors that shape one's risk perception, including age, gender, ethnicity, and past experience [10]. Unlike previous studies, which focused mainly on personality traits, the current research adopted a priming procedure in manipulating travelers' risk perception. Priming is a cognitive process that occurs when the content of an initially encountered stimulus renders subsequent information more accessible, thereby increasing the influence of the information on consumer choices [8]. When risk perception is activated through priming, travelers may be more willing to choose free cancellation over a non-refundable option to minimize losses.

### **Risk Cue**

In the OTA setting, multiple ads are displayed along with a large selection of hotel deals. Side-banner ads are purported to encourage viewers to click through to an advertised website. Travelers, whether intentionally or unintentionally, typically filter out these ads as unwanted noise, regarding such information as irrelevant to their primary goal of booking a hotel room [16]. However, some studies argued that side-banner ads can influence purchase decisions by functioning as a cue that triggers specific memories related to a current purchase [3] [16]. This argument is in line with information integration theory, which suggests that people unconsciously collect all available information and use the details that they integrate to reach a conclusion [2]. Thus, even if the information is irrelevant, a side-banner ad that conveys travel-relevant (versus travel-irrelevant) risks may foster an increased awareness of unforeseen hazards in travel plans, resulting in an elevated intention to choose a free cancellation offer.

## METHODOLOGY

### Design

This study used a  $2 \times 2 \times 2$  mixed factorial design, with cancellation policy (free cancellation, non-refundable booking) being the within-subject variable and risk perception (priming, no priming) and risk cue (travel-relevant, travel-irrelevant) being the between-subject variables. Cancellation policy was manipulated by displaying two booking options: a free cancellation option that allows travelers to make penalty-free cancellations and a non-refundable option that prohibits cancellations or changes to reservations. Reflecting the real-world pricing strategies implemented in the hotel industry, the free cancellation option was priced slightly higher than its non-refundable counterpart [15]. Risk perception was manipulated using a scale for risk aversion, which was measured either prior to or after the use of the experimental scale to activate or control risk perception, respectively. Risk cue was manipulated with a side-banner ad depicting travel insurance (i.e., travel-relevant) or auto insurance (i.e., travel-irrelevant).

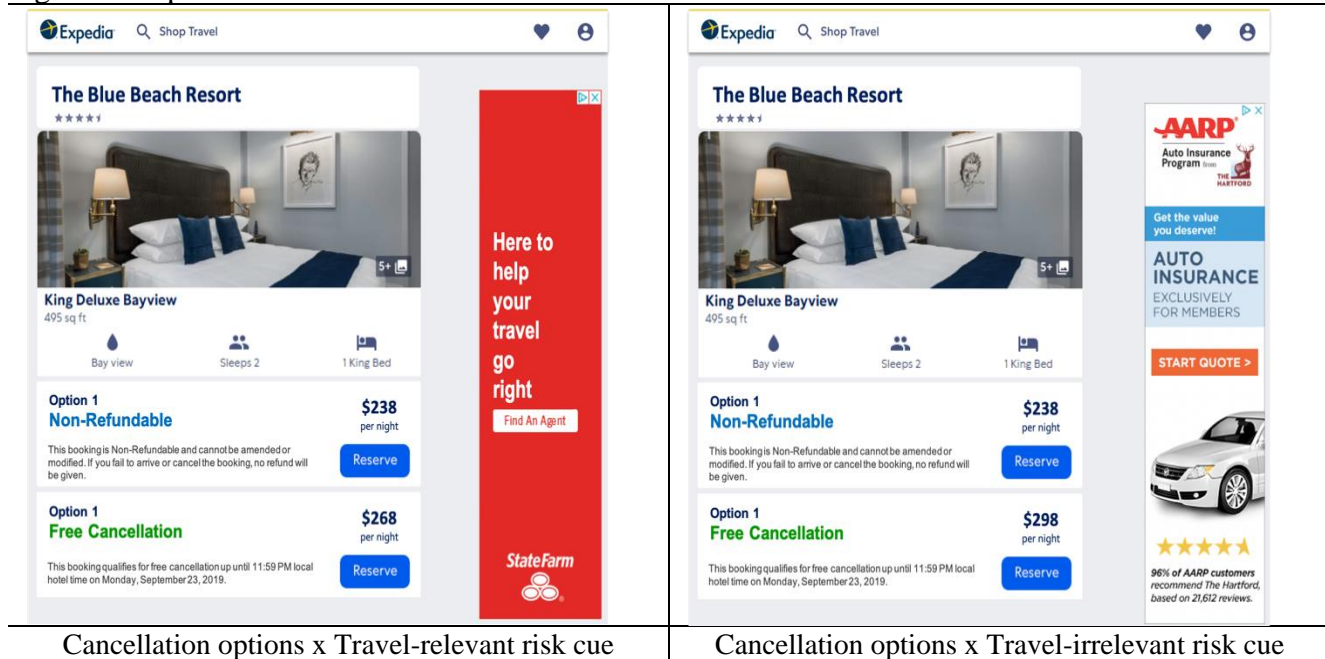
### Subjects

The target population of this study was travelers who had booked a hotel through OTA websites within the last 12 months. The study participants were recruited through Qualtrics, a market research company. A total of 168 subjects comprised the experimental sample, which is adequate to detect a medium-size effect with a statistical power greater than 0.95 [7]. The sample consisted of 51.2% female and 48.8% male and was fairly evenly distributed across age groups: 18-24 years (12.5%), 25-34 years (17.3%), 35-44 years (17.9%), 45-54 years (17.3%), 55-64 years (15.5%) and 65 years or more (19.6%).

### Stimuli and Procedures

Participants were randomly assigned to one of the four between-subject experimental conditions. Upon consenting to participate, the participants were asked to make a hypothetical hotel room booking online. Stimuli replicated OTA websites, where the “travelers” could search for hotels and choose a cancellation policy under which to book their desired accommodations. A fictitious hotel name paired with a hotel image retrieved from Expedia.com was used. A single room type with two cancellation options was displayed. Along with the cancellation options, a side-banner advertisement was presented to signal either travel-relevant or travel-irrelevant risks (see Figure 1). Following cancellation policy and risk cue manipulations, booking intention was measured using a three-item scale [6]. Risk aversion was measured with the four items [4]. The measure was presented either prior to or after stimuli presentation, depending on the priming condition in which the participants were involved. The questionnaire was concluded with demographics and manipulation checks.

Figure 1. Experimental stimuli



## RESULTS

A three-way mixed analysis of variance was conducted on booking intentions with one repeated-measures factor (i.e., cancellation policy) and two between-subject factors (i.e., risk cue and risk perception). The results revealed a significant three-way interaction among cancellation policy, risk cue, and risk perception. Simple main effect tests were performed to better understand the interaction effects on the basis of risk perception. Under the no priming condition, cancellation policy and risk cue exerted a significant two-way interaction effect on booking intention. Specifically, the travel-relevant risk cue increased the intention to book a room that came with free cancellation relative to the intention to opt for the non-refundable option, whereas the travel-irrelevant cue yielded no significant differences in booking options. Under the priming condition, a marginally significant interaction effect occurred. To be specific, the participants exhibited a higher intention to opt for a free cancellation booking than a non-refundable option after exposure to the travel-irrelevant risk cue. However, no significant difference occurred under the advertisement that displayed travel-relevant risk.

## DISCUSSION AND IMPLICATIONS

This study examined the relationship between travelers' risk perception and their choice of cancellation policy. The results indicated that the selection of free cancellation versus a non-refundable option increased with risk perception. Although both priming and risk cue were effective risk triggers, the travel-relevant risk cue increased the intention to choose free cancellation only when risk perception was not activated through priming. This finding suggests that priming and risk cues cancel out each other's influence.

The findings add to the evidence that supports the contention of information integration theory that consumers use all information available to them in making judgments and choices [2]. Although ads are always displayed on OTA websites, their effects on traveler behaviors have received scant attention.

This research fills this gap in the literature by inquiring into how advertising can serve as a situational cue that alerts individuals to risk, in turn influencing travelers' booking behaviors.

A robust cancellation policy is an integral part of the revenue management strategy of hotels not only because it protects hotels against potential losses but also because it has a profound impact on travel-related decision making [5]. During high-demand seasons, free cancellation bookings may be beneficial for hotels because there is a considerable chance of selling unsold rooms at optimal rates. Thus, hotel managers may persuade travelers to book under a free cancellation policy by manipulating their risk perception through priming.

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