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Consumers' Risk Perceptions and Search for Information in Accounting Service Purchases

By Sarah J. Garner and Paul Garner

Consumers must constantly make decisions regarding the purchase of products and services including what, when, where and how to buy them. Since the consequences of such decisions are relatively uncertain, the consumer faces a varying degree of risk in making each decision. In the marketing area, this risk is referred to as "perceived risk." The concept of perceived risk has been defined as follows. "Consumer behavior involves risk in the sense that any action of a consumer will produce consequences which he cannot anticipate with anything approximating certainty."¹

There are several reasons why a consumer might perceive risk when making product or service purchase decisions. First, a consumer might perceive risk because of minimal experience with the product or service being considered. Second, a consumer may have had an unsatisfactory experience with a product or service and is concerned about making a second mistake. Third, financial resources may be very limited so that the selection of one product or service requires the consumer to forego another. Fourth, a consumer may feel that he or she has limited knowledge

on which to base a decision. Further, the consumer may lack the self-confidence to make the proper decision.²

The above reasons lead to a conscious or unconscious perception of risk. Risk that is not perceived, no matter how real or dangerous, does not influence consumer behavior. The degree of risk perceived by a consumer and the consumer's tolerance level for risk-taking influence the purchasing strategy selected.

Since the end of World War II the service sector has become one of the largest, and in many respects the most dynamic, element in the United States economy. In 1962, consumers spent approximately 34 percent of their income on services; in 1972, 42 percent of their income was spent on service;³ in 1981, 47.4 percent of personal income was being spent on services.⁴

The marketing academic community has almost ignored service marketing in favor of the traditional focus on product marketing. Because of the increased importance of services in the United States economy and our present lack of understanding of the consumer decision-making pro-

cess for services, more empirical research is needed to improve the efficiency and effectiveness of service marketing. The research study described in this article is an attempt to remedy this lack of understanding with respect to a single type of service purchasing — the purchasing of accounting services.

Variables Investigated

This empirical study used a sample of consumers to ascertain the type and extent of perceived risk involved in the purchasing of the services of a personal accountant or CPA. It also investigated what types of information sources were utilized by these consumers in reducing their perceptions of risk.

Six types of perceived risk have been identified by marketers⁵ These types or components of overall perceived risk include:

- (1) Performance Risk: the risk involved in a service purchase that the service will not be completed in a manner which will result in consumer satisfaction.
- (2) Social Risk: the risk that the selection of the service producer will affect in a negative way the perception of other individuals about the consumer purchaser.
- (3) Financial Risk: the risk that the selection of the service producer will result in a monetary loss to the consumer.
- (4) Time Risk: the risk that the consumer will waste time, lose convenience, or waste effort getting a service redone because it was not performed to the consumer's satisfaction.
- (5) Physical Risk: the risk that the performance of the service will result in a health hazard to the consumer.
- (6) Psychological Risk: the risk that the hiring of a service producer will have a negative effect on how the consumer perceives himself or herself.

Consumers frequently cope with these types of risk by seeking information from various sources. A.R. An-

dreasen identified five broad categories of information sources utilized by consumers. These five categories plus a sixth category — professional advocate — were included in the present study. Each of these information sources is briefly discussed below.

- (1) Impersonal advocate sources include mass media advertising such as that found in the Yellow Pages, magazines, radio, television, newspapers, and point-of-purchase displays. In this study, use of impersonal advocates by the consumer was divided into two parts. The Yellow Pages became one part while advertising in all other impersonal media composed the second part. This division allowed the researchers to ascertain whether the Yellow Pages are a significant source of information to reduce risk in the purchasing of accounting services.
- (2) Impersonal independent sources include the use of such unbiased evaluations as those found in *Consumer Reports*. This source also includes information gained from programming on television and radio and from professional and popular articles in periodicals.
- (3) The third information source, personal advocates, includes seeking the opinions of salespeople, store personnel, or store managers. For instance, if the consumer is unfamiliar with the accountants in the community, he or she may call or visit their offices to gather more information from the employees.
- (4) Personal independent sources include friends, neighbors, and family members. It also includes information sought from co-workers and gathered in other forms of casual conversation.
- (5) The fifth information source, direct observation and experience, involves relying on the consumers' own past experience in selecting an accountant. Information dealing with the consumer's past purchases is a part of this source.

(6) A sixth information source, professional advocate, was included in this investigation. A professional advocate source is an accountant who recommends one of his or her colleagues to the consumer. This is basically the use of a referral procedure.

The Study

The study asked the consumer respondents to state the amount of each risk type they perceived when purchasing accounting services and further, to state the likelihood of their seeking information from each of the six sources to reduce their perceptions of risk. The data gathered through the questioning procedure enabled the researchers to ascertain which risks and information sources held the greatest importance for the consumer.

The sample respondents were located in three communities in the southeastern United States. In order that the decision process involved in choosing an accountant would still be fresh in the consumers' minds, only new residents of these communities were used in the sample. The completed sample contained 179 individuals out of 500 contacted through the use of a mailed survey form. The response rate was approximately 38 percent.

The Results

The survey resulted in a rank ordering of the various risk types with respect to the purchasing of accounting services (See Table 1). Respondents perceived the greatest risks to be financial, time and performance risks when shopping for an accountant.

Table 1
Rank Ordering of Risk Types for Accounting Services

Rank	Type of Risk	
1	Financial	Most important risk
2	Time	
3	Performance	
4	Psychological	
5	Social	
6	Physical	Least important risk

Social and physical risks were the least important risk types. This indicates that consumers do fear a possible loss of either money or time in selecting an accountant. This fear is possibly caused by a lack of confidence, on the consumer's part, in the ability of accountants to render their services at an

adequate level of performance. Consumers also feel that a selection of a particular accountant is unlikely to affect either their health or their standing in the social community.

The second part of the survey dealt with which sources of information were likely to be used by consumers to reduce their risk perceptions. Respondents indicated that in order to reduce their perceptions of risk they would be most likely to use impersonal advocate, followed by impersonal independent, professional advocate, and direct experience. The least likely source of information were personal advocate, personal independent, and the Yellow Pages. (See Table 2.)

Table 2
Rank Ordering of Information Sources

Rank	Information Source	
1	Impersonal Advocate	Most Likely
2	Impersonal Independent	
3	Professional Advocate	
4	Direct Experience	
5	Personal Advocate	
6	Personal Independent	
7	Yellow Pages	Least Likely

Summary and Recommendations

Financial and time risks had the highest mean scores in the purchasing of accounting services. Accountants should focus on reducing financial and time risk perceptions. To alleviate these risk types, accountants might use a variety of techniques. First, accountants should explain all charges for their services and justify them to the consumer. It should be emphasized that accounting services are designed to save money rather than increase cost and are thus worth the charges involved. Second, options in different methods of handling tax returns, bookkeeping, investments and other accounting services should be fully explained to each client. Third, accountants should dispense their services in convenient locations and become more aware of their customers' time constraints in addition to their own time constraints.

One of the more surprising findings in this study dealt with the information sources which were significant in the selection of an accountant. Respondents indicated that advertising (impersonal advocate) was the

SEC PROFESSIONAL ACCOUNTING FELLOW PROGRAM

Wayne G. Pentrack of Larchmont, New York and Lawrence Salva of Glassboro, New Jersey, recently joined the Office of the Chief Accountant of the Securities and Exchange Commission to serve as Professional Accounting Fellows for two-year terms. They will be working directly with Clarence Sampson, the Chief Accountant, and will be involved in the study and development of rule proposals under the Federal securities laws, liaison with professional accounting standard-setting bodies and consultation with registrants on accounting and reporting matters.

The Commission is now accepting applications for two Professional Accounting Fellows to be selected in early 1986. These Fellows will work with Mr. Pentrack and Mr. Salva in this highly successful program which is designed to provide outstanding opportunities for personal development and career enhancement. During their two-year term, the Fellows deal with a broad range of accounting, auditing and disclosure issues.

Candidates for the Fellow positions should have at least six years of experience in a public accounting firm or in an organization that provides similar experience in financial accounting and reporting. In addition, a minimum of one year of this experience must have been at a managerial level. Applicants should be thoroughly familiar with the technical accounting and auditing literature as well as current issues confronting the profession.

Applicants are required to submit background information and a brief position paper on an accounting subject of interest to them and to the SEC. A description of the program and application procedures is available from the Office of the Chief Accountant, SEC, 450 Fifth Street, N.W., Washington, D.C. 20549.

most likely source of information to reduce risk for this service. Many accountants do not advertise beyond a location sign and a Yellow Pages listing. It is the recommendation of the authors that accountants reconsider and revise their use of advertising to include all media.

In addition to advertising, accountants should also instigate more popular articles and broadcast programming to explain their services to the the population. The use of the professional advocate source indicates that accountants should strive to keep a network of contacts with similar professionals in other communities. This could be achieved through attendance at local, regional and national conferences in the field. These contacts should result in more referrals of

newcomers in a community to local accountants, thus increasing their client load and subsequent income. Ω

NOTES

¹ Raymond Bauer "Consumer Behavior as Risk Taking," *Proceedings* (N.P.: American Marketing Association, 1960), pp. 389-398.

² Leon G. Shiffman and Leslie Lazar Kanuk, *Consumer Behavior* (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1978), p.85.

³ *Survey of Current Business*, 52 (June 1972) Table 2.12.

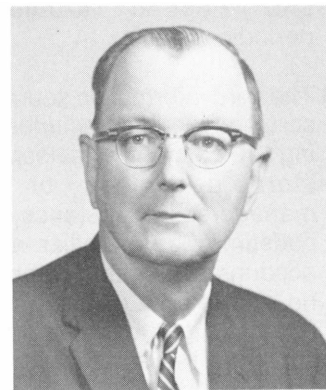
⁴ *Survey of Current Business*, 62 (September 1982) Table 6:8.

⁵ Jacob Jacoby and Leon B. Kaplan, "The Components of Perceived Risk," *Association for Consumer Research* (1972): 380-387.

⁶ A.R. Andreasen, "Attitudes and Consumer Behavior: A Decision Model," in *Perspectives in Consumer Behavior*, eds. H.H. Kassarian and T.S. Robertson (Glenview, Illinois, Scott, Foresman and Company, 1968) pp. 298-310.



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