The Impact of Crisis-Induced Changes in Refund Policy on Consumers' Brand Trust and Repurchase Intention

ABSTRACT

This research conducted two studies to unravel how the interplay of polarity of change in refund policy (positive vs. negative), the magnitude of change in refund policy (high vs. low), and refund format (cash vs. credit) on consumers' perceived trust of the company and repurchase intention. Study 1 shows consumers' trust of the company and repurchase intention were higher (lower) when the company changed refund policy positively (negatively) during crises. A high magnitude of change amplified the positive (detrimental) impact based on the positive (negative) change in refund policy on consumers' responses. Study 2 demonstrates the interplay of the polarity of change in refund policy and refund format. The positive (detrimental) impact produced by a positive (negative) change in refund policy was amplified when a cash refund was offered. The same effect was attenuated by a credit refund.

Keywords: Refund policy; polarity of change; magnitude of change; refund format; brand trust; repurchase intention.

1. INTRODUCTION

In the year 2020, the world went under lockdown due to the outbreak of a new coronavirus disease: COVID-19. Since infection and death rates were accelerating, many governments implemented compulsory lockdowns and social distancing measures in the hope of keeping the virus under control. As people were forced to cancel their vacation plans, the hospitality and tourism industries were immensely affected. The World Tourism Organization (UNWTO, 2021) reported that global international arrivals dropped by 74% in 2020. Since many regions introduced restrictions on movement, hotels and airlines received mounting cancellation requests and refund claims after the outbreak of the pandemic.

To express sympathy with consumers who have been affected by the crisis, many hotels (e.g., Hilton, Premier Inn) changed their refund policies from non-refundable to refundable during

the crisis. Some hotels and tourism firms (e.g., Expedia, Travelodge) allowed consumers to cancel their bookings in exchange for cash or vouchers worth the same amount to be used for future bookings (TravelPerk, 2020). While many tourism businesses acted generously, selfish behavior was discovered as some firms (e.g., easyJet, British Airways) breached promises and denied refunds to consumers (The Guardian, 2020).

Although many tourism firms agilely responded to the health crisis by changing their refund policies in order to mitigate losses in revenue, the impact of those crisis-induced changes to their refund policies on consumers remains unclear. Nguyen's (2013) study reveals that firms acting unfairly and failing to fulfill promises during the contractual period would propel consumers to switch partners and share negative word-of-mouth. Smith and colleagues' (2015) study also demonstrates that violating initial policies and treating consumers unfairly would negatively affect consumers' patronage. Following Morgan and Hunt's (1994) commitment trust theory, the execution of self-beneficial actions during crises reduces business partners' brand trust and, consequently, their intention to behave cooperatively. In the case of negatively changing refund policies (i.e., changing refund policies from fully refundable to partially-/non-refundable), while it may allow firms to reduce financial loss by retaining collected fees from consumers, violating the initial policies and advantaging themselves during crises are considered to be opportunistic behaviors. In turn, this uncivilized organizational behavior is likely to reduce consumers' trust of the company and even their intention to repurchase products from that same company in the future.

Conversely, if companies change their refund policies positively (i.e., changing refund policies from non-refundable to partially-/fully-refundable), the act of sympathizing with and helping consumers in need during crises is considered to be an altruistic behavior, even though the changes may result in financial losses. Prior studies demonstrate that companies behaving altruistically during crises are perceived as being more trustworthy by consumers (Hardy & Van Vugt, 2006). A similar outcome is expected when companies show sympathy and change their refund policies positively in times of the recent health crisis. Still, while the aforementioned propositions are theoretically compelling, the answer to the question of whether or not and how the polarity of change in refund policies during a crisis affects consumers' attitudinal and behavioral responses remains unclear.

Since the extent of a change in refund policy (i.e., full refund → partial refund; no refund → full refund) varies across different companies, the effect of the interplay of polarity and the magnitude of change on consumers is another issue that merits further investigation. Alike price promotions, consumer reactions to price discounts differ as a function of each discount's magnitude (Sheehan, Hardesty, Ziegler, & Chen, 2019). Palmatier, Houston, Dant, and Grewal (2013) illustrate that the relationship commitment among business partners is determined by the magnitude and polarity of change happening among them. Following this assertion, the polarity of change in a refund policy is likely to produce differential impacts on consumers, according to its magnitude of change.

Besides the magnitude of change, the format of the refund is expected to produce differential impacts on consumers, following Tversky and Kahneman's (1981) classic framing effect. Heiman and colleagues (2015) suggest that consumers generally conceive of cash returns as being more valuable than store credit returns. Janakiraman, Syrdal, and Freling (2016) also find that cash refunds and store credit refunds are regarded differently by consumers, even though their monetary value is identical. As the forms of refund given by tourism firms are not identical, it would be interesting to examine whether or not consumers' responses vary when different forms of refund are presented to them.

To thoroughly understand how crisis-induced changes in refund policy affect consumers' attitudinal and behavioral responses, this research examines how the polarity of change in a refund policy affects consumers' trust of the associated company and repurchase intention. In addition, another objective of this study is to examine the effects of the interplay of the polarity of change in refund policy, the magnitude of change in refund policy, and refund format on consumers' trust of the company and repurchase intention.

2. LITERATURE REVIEW

2.1. Refund policy

Despite being widely embraced by hospitality and tourism businesses, surprisingly, existing research on refund policies (also known as return policies) is mostly catalogued in journals

from other disciplines. Overall, research on refund policies can be divided into two main streams. The first stream of research focuses on the sellers' perspective, with the primary aim of identifying refund policies that can optimize businesses' performance. Examining the impact of different refund policy schemes on businesses' profit is one frequently researched topic (e.g., Park, Jung, & Park, 2020). In the business-to-business context, Pellegrini (1986) claims that the introduction of refund policies can encourage retailers to carry larger stocks because the cost of excess inventory shifts from retailers to manufacturers. The question of whether or not free refund policies should be employed by retailers has also received much scholarly attention. In Hjort and Lantz's (2016) study on fashion products, imposing free refund policies is proven to be capable of promoting sales. Fang, Fu, Liu, and Cai's (2021) study, however, shows that imposing free refund policies can have a detrimental impact on the sales of knowledge products.

Another stream of research focuses on the consumers' perspective. The primary goal of this stream is to understand the impact of refund policies on consumers' purchase behavior and product evaluation. Several studies test and confirm that the leniency of refund policies is impactful in regard to consumers' decisions. Rokonuzzaman et al.'s (2020) study shows that consumers' purchase intention is higher (lower) when a lenient (stringent) return policy is imposed. Wang, Anderson, Joo, and Huscroft's (2020) study also reports that consumers' perception of the leniency of return policies positively affects their intention to repurchase products from the same vendor. Wood (2001) finds and reports that a lenient return policy can reduce consumers' inherent risk in making remote purchases, because a lenient return policy reduces the cost of reversing a bad decision. Since the act of promising to offer a full refund signifies that the seller is confident in the quality of their product, having a lenient return policy in place can increase consumers' trust of online retailers, as well as their expectations of product quality.

The influence of other refund-related characteristics on consumers has been examined in several studies. Chen, Schwartz, and Vargas (2011) verify that the length of time during which a product can be returned is impactful on consumers' booking decisions. Pei, Paswan and Yan (2014) examine the effects of online retailers' return depth (i.e., the amount of money that can be acquired after returning the product) on consumers' purchase intention; their results show that consumers' purchase intention is stronger (weaker) when a full (partial) refund is offered. Though the impact of refund policy and its characteristics on consumers has been extensively researched,

the refund policies discussed in prior studies are static and one-off events. While many firms altered their refund policies in response to the recent health crisis, no prior studies have examined whether (or not) and how the changes in refund policy impact consumers.

2.2. Commitment Trust Theory

Invented by Robert Morgan and Shelby Hunt, commitment trust theory (CTT) is one of most widely used theories in marketing research and particularly relationship marketing research. In a nutshell, CTT contends that relationship commitment and trust between business duos are central to the successful relationship marketing (Morgan & Hunt, 1994).

The relationship commitment and trust between business duos are influenced by five key precursors. *Relationship termination cost* is the first precursor. It refers to all expected losses upon ending a business relationship. A high relationship termination cost often leads to dependence because a high switching cost would generate partners' interest in maintaining the existing relationship. *Relationship benefit* is the second precursor. It comprises all types of values gained from committing to a relationship with a business partner. Since partners that provide exceptional benefits relative to others are highly valued by consumers, high relationship benefits often make a relationship committed (Cui, Mou, Cohan, Liu, & Kurcz, 2020). Defined as the degree to which partners share common beliefs about which goals and behavior are important, *shared values* are postulated to foster trust between business duos and make business partners more committed to their relationship. *Communication*, which involves the act of sharing meaningful and timely knowledge among partners, is another precursor that can instill trust between business duos. *Opportunistic behavior*, which it refers to self-beneficial actions, is the fifth precursor. Following Morgan and Hunt, committing to an opportunistic behavior causes business partners to no longer trust each other, thereby deteriorating the relationship commitment of the business duos.

CTT also illustrates how relationship commitment and trust between business duos influence various business outcomes. *Acquiescence*, which refers to the extent to which partners adhere to requests from other parties, is the first outcome. According to Morgan and Hunt (1994), relationship commitment is a positive precursor to acquiescence. Commitment between business

duos is also likely to affect one's likelihood to terminate a business relationship (i.e., *propensity to leave*). A high propensity to leave is often linked to low levels of commitment. Defined as the proactive act of establishing mutual grounds that satisfy both parties, *cooperation* is influenced by both commitment and trust. Since a committed partner seeks cooperation and a trusted partner tends to be more cooperative, *cooperation* is influenced by both commitment and trust. *Functional conflict* is the fourth outcome variable. It signifies a healthy level of constructive disagreement. When there is trust in a business relationship, disagreements are regarded as a form of functional conflict, which is raised to achieve greater results. Finally, CTT theorizes that trust can reduce consumers' or partners' *decision-making uncertainty*. In other words, the more trust a partner has in the other party, the more likely it is that the partner will trust the other party will not take advantage. Figure 1 graphically summarizes the tenets of CTT.

Please Insert Figure 1 Here

Studies in various disciplines have applied and demonstrated the prominent applicability of CTT in investigating topics pertinent to relationship marketing (e.g., Cui et al., 2020; Hashim & Tan, 2015). Wu, Weng, and Huang's (2012) study of high-tech companies in Taiwan demonstrated that trust between supply chain partners can facilitate constant cooperation and reduce partners' propensity to leave. Hashim and Tan's (2015) study showed members of online communities tend to trust the communities more and engage more with continuous knowledge sharing activities, if they are satisfied with the service and information available in those communities. The detrimental impact of opportunistic behavior on trust has been tested and verified in several works. Mukherjee and Nath (2007) reported that consumers rated retailers who disseminate inauthentic information as being less trustworthy. Cui et al. (2020) supported that failure to provide the promised support to consumers reduces consumers' trust of the associated company. While many studies have already proven the applicability of CTT in explaining how the relationship between businesses and consumers can be sustained, besides a few notable exceptions (e.g., Li & Chang, 2016), CTT has rarely been applied in hospitality and tourism research. Hence,

exhibiting and extending the applicability of CTT to explain the impact of crisis-induced changes in refund policy on consumers is deemed to be a theoretical contribution of this present research.

3. RESEARCH HYPOTHESES

3.1. Polarity of Change

Referring to the direction of transition from one policy to another, the polarity of change in a refund policy is expected to have a profound impact on consumers' brand evaluation and future behavior. As illustrated by Shelly and Jackson (2009), consumers present their trust of chosen hotels and expect those hotels to uphold the stated policies when they make hotel reservations. If hotels alter the refund policy negatively and attempt to solely benefit themselves during crises, following the tenet of CTT, this sort of opportunistic behavior will erode consumers' trust of the hotels and thereby inducing consumers to engage in more undesirable behavior (Morgan & Hunt, 1994).

Social exchange theory can also explicate why negative changes in a refund policy would jeopardize consumers' brand evaluation and future behavior. Since business duos often seek to create a fair exchange relationship, the occurrence of events that disrupt the balance in the relationship would propel the affected party to engage in more negative behaviors in order to restore reciprocity (Blau, 2017). Similarly, if one hotel behaves egoistically and changes a policy to benefit themselves only, consumers would perceive that policy change as an unfair business practice because they cannot receive a reciprocal return from that hotel in this exchange relationship. As such, they would decrease their trust of that hotel and reduce their intention to repurchase products from the same company in the future. Following the tenets of CTT and social exchange theory, we propose that:

H1a: If a company changes its refund policy negatively during crises, consumers' trust in that company will be lower.

H2a: If a company changes its refund policy negatively during crises, consumers' intention to repurchase products from that company will be lower.

As a form of altruistic corporate social responsibility practice (Shin, Sharma, Nicolau, & Jang, 2021), changing a refund policy positively and sacrificing the companies' profits to benefit vulnerable consumers during crisis are expected to enhance consumers' trust of that company and entice them to repurchase products from the same company in the future. According to reciprocal altruism theory, people often reciprocate and elicit other people to reciprocate the kindness they have received from providers of help when they are in need (Trivers, 1971). Given that changing a refund policy positively and self-sacrifice during crisis are conceived as altruistic organizational behaviors (Johnson, Mao, Lefebvre, & Ganesh, 2019), consumers are likely to consider the associated company as being more trustworthy, and repay their kindness via repurchasing products from the that company in the future.

Attribution theory can also justify why changing a refund policy in a positive way can increase consumers' brand evaluation and future behavior. Since consumers are victims but not causes of the health crisis, making consumers scapegoats is unfair to consumers; their trust in the corresponding company may thus be eroded (Gao, Knight, Zhang, Mather, & Tan, 2012). Conversely, if companies sympathize with consumers' unfortunate situation and alter their refund policy to benefit consumers, consumers will consider that as an empathetic business practice and will further infer that the company is a trustworthy exchange partner. With this explanation in mind, we postulate that:

H1b: If a company changes its refund policy positively during crises, consumers' trust in that company will be higher.

H2b: If a company changes its refund policy positively during crises, consumers' intention to repurchase products from that company will be higher.

3.2. Magnitude of Change

Numerous academic studies have empirically proven that the magnitude of change in price (i.e., 15% off or 30% off) is highly associated with consumers' price judgment and purchase intent.

McKechnie and colleagues' (2012) study shows that the magnitude of price reduction has a positive impact on consumers' purchase intention. In the hospitality realm, Nusair, Yoon, Naipaul, and Parsa (2010) suggest that the magnitude of price reduction not only affects consumers' purchase intention but also their willingness to engage in word-of-mouth advertising.

Similar to the way in which price reduction level influences the efficacy of price promotion, the impact of the polarity of change on consumers is expected to be moderated by its magnitude of change. According to Sherif, Taub, and Hovland's (1958) assimilation-contrast theory, the discrepancy between the initial and new reference points influence the decision outcome. If the magnitude of change between two points is large, a strong contrast effect is likely to drive customer response. However, if the magnitude of change is small, an assimilation effect will attenuate customer responses. Concordant with Sherif et al. (1958), Ferraro et al.'s (2017) study shows that consumer spending in a store with a larger magnitude of change in remodeling increases by 12%, while the corresponding figure in a store with a smaller magnitude of change increases by just 1%.

Applying this study to the change in refund policy, if the refund policy changes negatively (positively) and the magnitude of change is high, the extent of loss (gain) will be magnified and its detrimental (positive) impact on consumers' brand evaluation, as well as future behavior, will be stronger. In contrast, if the refund policy changes negatively (positively) but the magnitude of change is low, the degree of loss (gain) will be less evident. This may in turn have less of a detrimental (positive) impact on consumers' brand evaluation and future behavior. Following these assertions, we postulate that:

H3a: If a company changes its refund policy negatively and the magnitude of change is high (low), consumers' trust in that company and intention to repurchase products from the same company will be significantly lower (higher).

H3b: If a company changes its refund policy positively and the magnitude of change is high (low), consumers' trust in that company and intention to repurchase products from the same company will be significantly higher (lower).

3.3. Refund Format

The choice of refund format, which refers to the way in which refunds are issued to consumers in exchange for their returned item, is another refund-related dimension that researchers and practitioners cannot overlook. Although credit refunds are more often used by commercial businesses (Heim & Field, 2007), researchers generally find that the provision of cash refunds can produce a higher level of positive impact on business performance. Janakiraman et al.'s (2016) meta-analysis study reveals that offering cash refunds can result in fewer product returns than offering product exchanges does.

Past literature also reveals that consumers generally prefer receiving cash refunds over credit refunds. Heiman et al. (2015) report that consumers consider money-back guarantees with credit refunds as being less valuable than their those with cash refund, because the former has a lower level of exchange leniency. Compared to store credit (e.g., loyalty points), cash is more valuable because consumers can flexibly use the refunded cash for future consumption. In contrast, consumers can only use refunded store credit with the same company, because store credit is not a universal currency. Hence, cash refunds are often recognized as policies with a high level of exchange leniency, while credit refunds are policies with low exchange leniency (Abdulla, Ketzenberg, & Abbey, 2019).

Besides having a direct impact on consumers, refund format is expected to have indirect impacts on how the polarity of change in refund policies influences consumers' brand evaluation and future behavior. As discussed earlier, changing refund policies positively in times of crisis is conceived of by consumers as being a lenient and altruistic organizational behavior (Shin et al., 2021). Since providing cash refunds is also recognized as a policy with a high level of exchange leniency, the positive impact produced by a positive change in refund policy is likely to be amplified when a cash refund is offered. Conversely, as credit refunds involve a policy with a low level of exchange leniency, the positive impact induced by a positive change in refund policy will not be amplified when a credit refund is offered. For scenarios involving negative change, changing a refund policy negatively in times of crisis is seen as an unfair business practice. However, if the associated company offers a cash refund, the detrimental impact produced by the negative change in refund policy is likely to be reduced, because of the high level of exchange

leniency involve in cash refunds. If the associated company offers credit refunds, on the other hand, the detrimental impact produced by the negative change in refund policy is not likely to be decreased because of the low level of exchange leniency involved in credit refunds. To examine the interplay between the polarity of change in refund policies and the refund format, we propose:

H4a: If a company changes its refund policy negatively and a cash refund (credit refund) is offered, consumers' trust in that company and intention to repurchase products from the same company will be higher (lower).

H4b: If a company changes its refund policy positively and a cash refund (credit refund) is offered, consumers' trust in that company and intention to repurchase products from the same company will be higher (lower).

4. STUDY 1

To elucidate the effects of the interplay of polarity and magnitude of change in refund policy on consumers' attitudinal and behavioral responses, we conducted an experiment with a 2 (polarity: positive vs. negative) x 2 (magnitude: high vs. low) between-subject design.

4.1. Research Design

Procedures – The experiment began with an introduction of research background and checks of the participants' eligibility. A screening question ("*Have you made any online hotel bookings before?*") was asked to ensure only those who had made at least one online hotel booking in the past were recruited. Qualified respondents were then asked to report information about their online hotel booking experience ("*How many online hotel reservations have you made before?*") and refund experience ("*How many requests for refunds have you made before?*").

After confirming their eligibility, participants were asked to imagine that they originally planned to visit New York and stayed in a fictitious hotel (Starling Hotel) for their summer vacation. However, due a health crisis, they canceled the trip and requested Starling Hotel to

provide a refund. To vividly portray the scenario, one pre-crisis hotel booking confirmation email and one during-crisis hotel cancellation email were presented to participants (see *Stimulus Materials*). After reviewing the stimuli, participants were asked to complete a questionnaire with main questions, manipulation check questions and others (see *Measures*).

Stimulus Materials – The stimulus materials included a set of emails comprising a pre-crisis hotel booking confirmation email and a during-crisis hotel cancellation email. The polarity of change in refund policy has two levels (positive change vs. negative change). It was manipulated by changing the refund policies listed in the booking and cancellation emails. For the scenarios showing positive change, the booking email stated no refund was offered, but the cancellation email stated a partial/full refund was offered due to the crisis. For the scenarios showing negative change, the booking emails stated that a full refund was offered, but the cancellation emails stated that a partial/no refund was offered due to the crisis.

Magnitude of change has two levels (high vs. low). For the scenarios showing a high magnitude of change, the two refund policies were changed by over 90% (i.e., positive: from 0% refund to 100% refund; negative: from 100% refund to 0% refund). For the scenarios showing a low magnitude of change, the two refund policies were changed by 50% only (i.e., positive: from 0% refund to 50% refund; negative: from 100% refund to 50% refund). To ensure the stimulus materials were realistic, real hotel booking confirmation and cancellation emails were referenced. Twenty postgraduate students were also invited to verify the realism of the materials and remove all confounding variables. Appendix I presents the materials designed for the positive change and low magnitude scenarios.

Measures – Respondents' trust of the company was measured according to their average ratings on five statements borrowed from Sirdeshmukh, Singh and Sabol (2002) (Cronbach's α = 0.93). Respondents' repurchase intention was checked by asking them to answer three questions borrowed from Chiu, Chang, Cheng, and Fang (2009) (Cronbach's α = 0.91). Seven additional questions were asked to measure and control for the confounding effect caused by participants' perceived altruism (Oda, Yamagata, Yabiku, & Matsumoto-Oda, 2009). Besides, respondents' online hotel booking and refund experiences were considered as covariates and included in the analysis. Appendix II presents the measures of the dependent variables and covariates.

Two manipulation check questions were asked to check whether or not the manipulations were successful. The first question asked the respondents to indicate the polarity of change in the refund policies shown in their corresponding scenarios ("*According to the two emails shown to you, Starling Hotel changed its refund policy in a [1: very negative – 5: very positive] way*"). The second question asked the respondents to indicate the extent of change in the refund policies before and after the health crisis occurred ("*According to the two emails shown to you, Starling Hotel made a [1: very insignificant – 5: very significant] change to its refund policy*"). Three realism check questions were asked to check whether or not they found the stimulus materials and scenarios realistic. One attention check question ("*Please select 'strongly agree'*") was included in the questionnaire to eliminate spurious data owing to poor levels of attentiveness. Finally, the respondents were asked to report their gender, age, and educational level.

Data Collection – Before commencing the main data collection process, a pilot study was conducted with 20 past hotel consumers. Apart from some minor problems like unclear wordings, the pilot test participants generally stated that the stimulus materials were clear and free of errors. The participants in Study 1 were recruited via Amazon Mechanical Turk (MTurk), a reputable online platform that enables researchers to recruit internet users for their research studies. A total of 144 respondents provided valid responses and all successfully passed the attention check. Of those 144 responses collected, 54.2% (n = 78) of participants were male. The average age of participants was 38 years and nearly 40% were aged 35 years and below. The majority of the participants were highly educated (bachelor's degree: 56.9%; master's degree: 21.5%). The participants were mostly familiar with online hotel booking processes (participants had booked hotels online two-to-three times: 29.2%; four-to-five times: 20.1%; and six-to-seven times: 11.1%) and refund processes (participants had received refunds once: 33.3%; two-to-three times: 30.6%; and four-to-five times: 10.4%).

4.2. Research Findings

Manipulation and Realism Check – The manipulation of the polarity of change was considered successful. Participants exposed to positive change scenarios gave a higher average rating on the manipulation check item for the polarity of change than those exposed to negative

change scenarios (M_{POS} = 3.94; M_{NEG} = 2.45; t = 7.29, p < 0.01). The manipulation of the magnitude of change was also deemed successful. Participants in the high-magnitude change scenarios gave a higher average rating on the manipulation check item for magnitude of change than those exposed to low-magnitude change scenarios (M_{High} = 4.04; M_{Low} = 2.78; t = 9.33, p < 0.01). Regarding the realism of the experiment, the participants generally agreed that the situation described in the scenario was realistic (M = 4.04, t = 18.16, p < 0.01). The stimulus materials presented to participants were realistic (M = 4.15, t = 17.74, p < 0.01). Participants also encountered no difficulties in imagining themselves in the scenario (M = 4.07, t = 12.48, p < 0.01).

Hypothesis Testing – Multivariate analysis of covariance (MANCOVA) was adopted to examine the main effect (induced by the polarity of change and covariates) and interaction effect (induced by the polarity and magnitude of change) on the dependent variables.

Two significant covariates were identified. As shown in Table 1, consumers' perceived altruism exerted positive influences on their trust of the company (F = 14.64, p < 0.01; $\eta 2$ = 0.10; β = 0.47) and repurchase intention (F = 13.17, p < 0.01; $\eta 2$ = 0.09; β = 0.51). In other words, consumers will place more trust in a company if they are more altruistic. Consumers are also more likely to repurchase products from the same company if they are more altruistic. Online hotel booking experience was another significant covariate, but its impacts on brand trust (F = 8.09, p < 0.01; $\eta 2$ = 0.06; β = -0.09) and repurchase intention (F = 10.99, p < 0.01; $\eta 2$ = 0.07; β = -0.12) were negative. The negative coefficient values denote that consumers will trust a company less and tend not to repurchase products from the same company if their online hotel booking experience is higher. As consumers might be exposed to more (or even better) options after acquiring more online booking experience, it is understandable why online hotel booking experience may produce a negative impact.

Please Insert Table 1 Here

The MANCOVA test results showed that the polarity of change in refund policy exerted a significant impact on consumers' trust of the company ($F = 42.33$, $p < 0.01$; $\eta 2 = 0.24$). Concordant with H1a and H1b, consumers' trust of a company is lower when that company changes its refund policy negatively during crises. Conversely, consumers' trust of a company is higher when that company changes its refund policy positively during crises ($M_{POS} = 3.83 > M_{NEG} = 2.65$; $p < 0.01$). Besides influencing consumers' trust of a company, the polarity of change was found to produce a significant impact on consumers' intention to repurchase products from the same company ($F = 32.07$, $p < 0.01$; $\eta 2 = 0.19$). When a company changes its refund policy positively during crises, consumers' interest is not affected. Their appreciation of that company's kindness may thus increase their intention to repurchase products from that company. In contrast, when a company changes its refund policy negatively during crises, consumers' interest is lost and consumers may be disgruntled. Hence, consumers' intention to repurchase products from that company is lower ($M_{POS} = 3.76 > M_{NEG} = 2.59$; $p < 0.01$).

The effects of the interplay of polarity and magnitude of change in refund policy on consumers' attitudinal and behavioral responses are demonstrated in Table 1 and Figure 2. In line with H3a, when a company changed its refund policy negatively and significantly (i.e., high magnitude), consumers' trust of that company and intention to repurchase products from the same company were significantly lower (trust: $M_{NEG + High} = 2.37$; intention: $M_{NEG + High} = 2.36$). In contrast, when the refund policy is changed negatively and mildly (i.e., low magnitude), consumers' trust and intention to repurchase products from the same company are comparatively higher (trust: $M_{NEG + Low} = 2.92$; intention: $M_{NEG + Low} = 2.82$). This suggests that the high magnitude amplifies the detrimental impact of negative change in refund policy on consumers' brand evaluation and future behavioral intention.

The results of the MANCOVA test also supported H3b. When refund policies were changed positively and remarkably, consumers' trust of that company, as well as consumers' intention to repurchase products from the same company, were significantly higher (trust: $M_{POS + High} = 4.20$; intention: $M_{POS + High} = 4.13$). However, when refund policies were changed positively and less significantly, consumers' trust and intention to repurchase products from the same company were rated lower (trust: $M_{POS + Low} = 3.46$; intention: $M_{POS + Low} = 3.39$). Since the degree

of gain becomes less evident when the magnitude of change is low, it is comprehensible why the positive impact of policy change on consumers' brand evaluation and future behavior is attenuated.

Please Insert Figure 2 Here

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5. STUDY 2

To investigate the effects of the interplay of polarity of change in refund policy and refund format, another experiment with a 2 (polarity: positive vs. negative) x 2 (format: cash refund vs. credit refund) between-subject design was conducted.

5.1. Research Design

Procedures – The experiment in Study 2 was similar to that in Study 1. Participants' eligibility was firstly checked by asking them to report whether or not they had made at least one online hotel booking in the past. Qualified respondents were then asked to report their online hotel booking and refund experiences. Afterwards, the participants were asked to imagine that they originally planned to visit New York and stayed in Starling Hotel for their summer vacation. However, a health crisis happened, so they canceled the trip and requested that Starling Hotel offer them a refund. Like Study 1, one pre-crisis hotel booking confirmation email and one during-crisis hotel cancellation email were presented to each participant. After reading the stimuli, participants were asked to complete a questionnaire.

Stimulus Materials – The stimulus materials used in Study 2 were a set of emails comprising a pre-crisis hotel booking confirmation email and a during-crisis hotel cancellation email. The polarity of change in the refund policy had two levels. For the positive change scenarios, the booking email stated that no refund was offered but the cancellation emails stated that a 50% refund was offered due to the crisis. For the negative change scenario, the booking email stated that a full refund was offered but the cancellation email stated that a 50% refund was

offered due to the crisis. Regarding the manipulation of refund format, one set of cancellation emails stated that a cash refund was offered, while another set stated that a credit refund was offered. Cash refunds and credit refunds were highlighted as they are the most frequently used refund formats used by commercial businesses (Heim & Field, 2007). Two rounds of pretests were conducted with 33 past hotel consumers in order to verify the authenticity of the stimuli. Appendix II presents the materials designed for the negative change and cash refund scenarios.

Measures – Trust of the company was measured using five items borrowed from Sirdeshmukh et al. (2002) (Cronbach's $\alpha = 0.91$). Repurchase intention was measured based on a three-item scale borrowed from Chiu et al. (2009) (Cronbach's $\alpha = 0.93$). The questions used to measure the impact induced by perceived altruism were also incorporated in Study 2 (Oda et al., 2009). Similarly, online hotel booking and refund experiences were considered as covariates and were included in the analysis.

The manipulation of the polarity of change was checked using the following question: "*According to the two emails shown to you, Starling Hotel changed its refund policy in a [1: very negative – 5: very positive] way*". To examine if the manipulation of the refund format was successful, the respondents were asked to specify the type of refund given by Starling Hotel in their cancellation emails. The realism check and attention check questions used in Study 1 were incorporated into the questionnaire in Study 2. The experiment concluded by asking the respondents to indicate their gender, age, and educational level.

Data Collection – The participants in Study 2 were recruited from Prolific, an emerging online platform for recruiting trusted research participants. Prior to the main data collection process, a pilot test was conducted with 28 past hotel consumers and no problems were reported. Among those 319 respondents who completed the experiment, 53.3% (n = 170) were male. The average age of participants was 40 years (aged 20-29 years: 22%; aged 30-39 years; 31.6%; aged 40-49 years: 22.9%) and three-quarters of them were bachelor's degree holders (72.1%). The participants in Study 2 were experienced in online hotel booking (two-to-three times: 26%; four-to-five times: 26.6%; six-seven times: 12.9%) as well as cancellations and refunds (once: 31.7%; two-to-three times: 30.1%; four-to-five times: 11.3%).

5.2. Research Findings

Manipulation and Realism Check – The polarity of change was manipulated successfully. Participants exposed to the positive change scenarios gave a higher average rating in regard to the statement "*According to the two emails shown to you, Starling Hotel changed its refund policy in a [1: very negative – 5: very positive] way*" than those exposed to negative change scenarios (M_{POS} = 3.97; M_{NEG} = 2.48; t = 11.80, $p < 0.01$). Refund format was also manipulated successfully, since all participants could accurately specify the type of refund provided by Starling Hotel in their cancellation emails. Participants generally agreed that the situation described in the scenario (M = 4.04, SD = 0.74) and the stimulus materials (M = 4.11, SD = 0.74) were realistic. They also encountered no difficulties imagining themselves in the scenario (M = 4.18, SD = 0.89).

Hypothesis Testing – In line with the results presented in Study 1, the MANCOVA test results in Study 2 showed that consumers' perceived altruism was a significant covariate that exerted positive influences on their trust of the company ($F = 6.68$, $p < 0.01$; $\eta 2 = 0.02$; $\beta = 0.23$) and repurchase intention ($F = 4.71$, $p < 0.05$; $\eta 2 = 0.02$; $\beta = 0.23$). This again proves that consumers are more likely to trust a company and repurchase a product from the same company if they are more altruistic. Online hotel booking experience was another significant covariate, but its impacts on brand trust ($F = 10.83$, $p < 0.01$; $\eta 2 = 0.03$; $\beta = -0.06$) and repurchase intention ($F = 14.94$, $p < 0.01$; $\eta 2 = 0.05$; $\beta = -0.09$) were negative. Although two covariates were identified, refund experience was again proven to be an insignificant covariate.

H1a and H1b were supported again in Study 2. As shown in Table 2, the polarity of change in refund policy exerted a considerable impact on consumers' trust of the company ($F = 65.36$, $p < 0.01$; $\eta 2 = 0.17$). The contrast test results further exhibited the way in which consumers' trust of a company is lower when that company changes its refund policy negatively during crises. However, when the company changed its refund policy positively during a crisis, consumers' trust of that company was higher ($M_{POS} = 3.93 > M_{NEG} = 2.96$; $p < 0.01$). H2a and H2b also garnered empirical support in Study 2 ($F = 40.49$, $p < 0.01$; $\eta 2 = 0.12$). Consumers' intention to repurchase products from a company is higher when that company changes its refund policy positively during crises. However, when a company changed its refund policy negatively, consumers' intention to repurchase products from that company was lower ($M_{POS} = 3.67 > M_{NEG} = 2.76$; $p < 0.01$).

Figure 3 and Table 2 illustrate the effects of the interplay of the polarity of change in refund policy and refund format on consumers' attitudinal and behavioral responses. Different from H4a, when a company changed its refund policy negatively and a cash refund was offered, consumers' trust of that company and intention to repurchase products from that same company were rated comparatively lower (trust: $M_{NEG + Cash} = 2.72$; intention: $M_{NEG + Cash} = 2.48$). Conversely, when the refund policy was changed negatively and a credit refund was offered, consumers' trust and intention to repurchase products from the same company were rated relatively higher (trust: $M_{NEG + Credit} = 3.21$; intention: $M_{NEG + Credit} = 3.04$). This suggests that cash refunds can evoke a stronger impact on consumers, and the detrimental impact produced by a negative change in refund policy is amplified when a cash refund is offered.

Please Insert Table 2 and Figure 3 Here

Although H4a was not supported, H4b garnered empirical support. When a company changed its refund policy positively and a cash refund was offered, consumers' trust of that company, as well as consumers' intention to repurchase products from that same company, were rated higher (trust: $M_{POS + Cash} = 4.11$; intention: $M_{POS + Cash} = 3.85$). However, if the refund policy was changed positively and a credit refund was offered, consumers' trust and intention to repurchase products from the same company were rated lower (trust: $M_{POS + Credit} = 3.74$; intention: $M_{POS + Credit} = 3.49$). This further proves that a cash refund can exert a stronger impact on consumers. The positive impact produced by a positive change in refund policy was amplified when a cash refund was offered.

6. DISCUSSIONS AND CONCLUSION

6.1. Discussions

While hospitality and tourism firms changed their refund policies in an agile manner in response to the global health crisis caused by COVID-19, the influence of those crisis-induced changes in refund policy on consumers' attitudinal and behavioral responses remained unclear prior to the completion of this study. Drawing on the results of two experiments, this research showed that changing refund policies positively would produce a favorable business outcome (i.e., higher levels of consumer trust and intention to repurchase). In line with the findings of Hardy and Van Vugt (2006), companies behaving altruistically in times of crisis are perceived as being more trustworthy by consumers. In contrast, changing refund policies negatively and advantaging the businesses during crises is considered to be uncivilized organizational behavior. Following CTT, the execution of self-beneficial actions during crises reduces consumers' trust of a company and their intention to repurchase products from that same company in the future.

Testing and confirming the effects of the interplay of polarity and magnitude of change on consumers' response is another key finding of this study. Similar to the way in which price reduction level influences the efficacy of price promotion (see McKechnie et al., 2012), this research showed that consumers' reactions to the polarity of a change in refund policy differ according to its magnitude of change. When a company changes its refund policy negatively and significantly, the extent of loss is magnified. A high magnitude amplifies the detrimental impact of negative change in refund policy on consumers' brand evaluation and future behavioral intention. In contrast, when a refund policy is changed positively and mildly, the degree of gain becomes less evident. This may explain why the positive impact of policy changes on consumers is attenuated when the magnitude of change is low.

Similar to Tversky and Kahneman's (1981) proposal in their classic framing effect, refund format was proven to produce indirect impacts on how the polarity of change in refund policy influences consumers' brand evaluation and future behavior. Echoing Janakiraman et al.'s (2016) assertion, the impact induced by cash refunds on consumers was more prominent. When a company changed its refund policy negatively and cash (credit) refunds were offered, consumers' trust of that company, as well as consumers' intention to repurchase products from the same company, were rated comparatively lower (higher). Similarly, when a company changed its refund policy positively and cash (credit) refunds were offered, consumers' trust of that company, as well as consumers' intention to repurchase products from the same company, were rated higher (lower).

To conclude, the impact produced by the polarity of change in refund policy (no matter whether it is positive or negative) will be amplified when a cash refund is offered.

6.2. Implications

As one of the first studies to examine this emerging topic, this study contributes new knowledge to the tourism and consumer behavior literature. As underlined in Section 2.1, although the influence of refund policy and its characteristics on consumers have been examined in prior studies, the type of refund policy discussed in prior studies is a static and one-off event. To the best of the authors' knowledge, this research is one of the first studies to examine whether or not and how the change in refund policy impacts consumers. The findings of this research complement existing literature by demonstrating how consumers react differently when a company changes its refund policy in various forms. The results of this research also complement consumer behavior literature by exhibiting how consumers process and react to policy change in times of crisis.

Extending the applicability of CTT to explain the impact of crisis-induced change in refund policy on consumers is another theoretical contribution of this research. As noted in Section 2.2, even though CTT has been applied in various disciplines, CTT has rarely been used in hospitality and tourism research, although there are a few notable exceptions (e.g., Li & Chang, 2016). In line with the theorem of CTT, committing to opportunistic behavior (i.e., changing a refund policy negatively due to a health crisis) erodes consumers' trust of hotels, thereby inducing them to engage in more undesirable behavior. However, if businesses engage in self-sacrifice and change their refund policies positively during crises, consumers perceive those companies as being more trustworthy and reciprocate their altruistic organizational behaviors by repurchasing products from them in the future (Johnson et al., 2019).

From a practical standpoint, the findings of this research provide hospitality practitioners with some insights into how they should change their refund policies strategically in times of crisis. If companies plan to change their refund policies negatively because of health crises, they should expect consumers' brand evaluation and future behavior to deteriorate. If they insist on executing negative changes, they should enact them at a milder level (i.e., low magnitude) or use credit

refunds (rather than cash refunds). In contrast, if companies plan to bear financial losses and favor consumers during crises, they should change their refund policies positively and significantly. Cash refunds (rather than credit refunds) should be employed in order to further enhance consumers' trust, as well as customers' intention to repurchase products from the same company in the future. Overall, this research has generated insights into how to adequately change refund policies in order to mitigate additional losses in the future.

6.3. Limitations

While this research makes some contributions to both theory and practice, future researchers should generalize the findings with caution. First, since a limited number of research subjects participated in the two experiments included in this research, and they were recruited from US-based (Amazon Mechanical Turk) and UK-based (Prolific) consumer panel platforms, future researchers should avoid over-generalizing the current findings unless they replicate the experiments with larger and more heterogeneous sample groups. Second, the exclusion of brand consumers' brand loyalty and other associated factors is another limitation of this research. Sirdeshmukh et al.'s (2002) study reveals that first-time consumers and loyal consumers react to the same company practice differently, and loyal consumers are generally more lenient in regard to service failure or poor business practices. Future researchers might extend this research by investigating whether or not consumers with different brand loyalty levels respond to changes in refund policies differently. The examination of which framing or communication methods can effectively reduce consumers' dissatisfaction with policy changes is another direction for future research. Tversky and Kahneman's (1981) classic framing effect can serve as the theoretical lens for these explorations. Attribution theory (internal attribution vs. external attribution) could also serve as the theoretical basis when investigating this topic in the future.

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Figure 1. Illustration of commitment trust theory

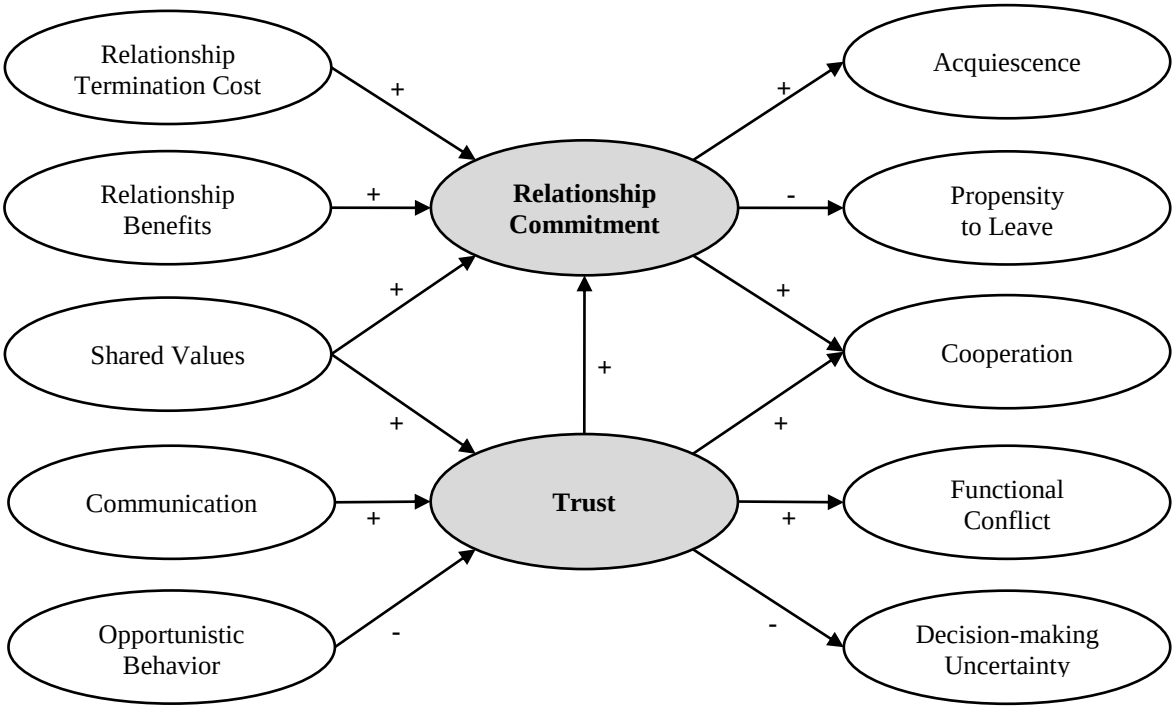

Figure 2. Interplay of polarity and magnitude of change in refund policy

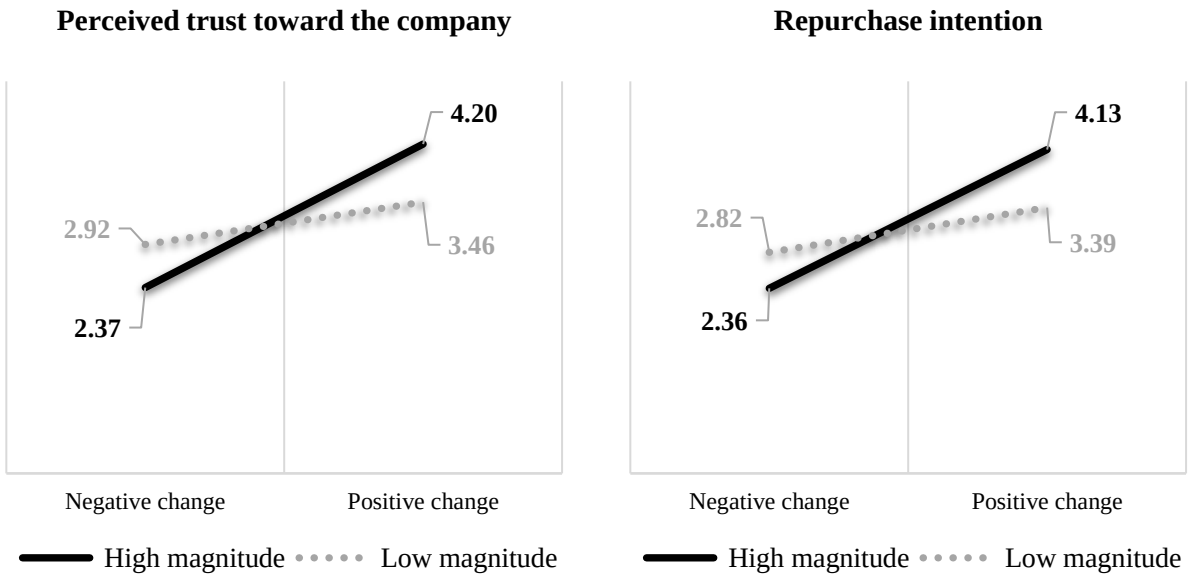

Figure 3. Interplay of polarity of change in refund policy and refund format

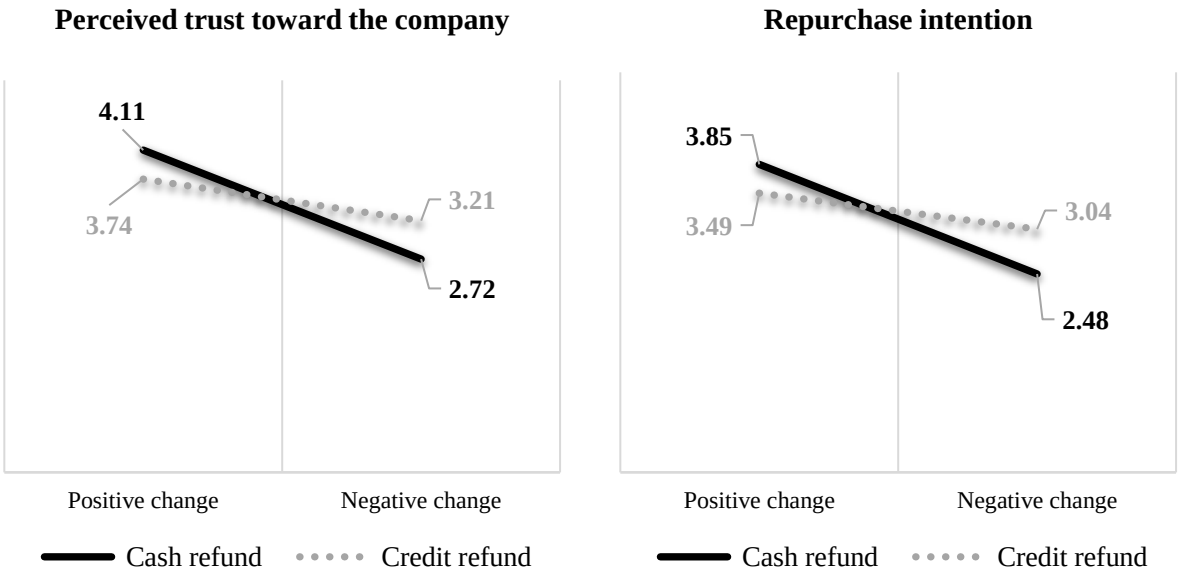

Table 1. Interplay of polarity and magnitude of change in refund policy

Independent / Dependent variables	F	p [a]	η2	Beta coefficients / Contrast test [a]
Covariate | Perceived altruism				
Perceived trust toward the company	14.64	< 0.01	0.10	β = 0.47**
Repurchase intention	13.17	< 0.01	0.09	β = 0.51**
Covariate | Online hotel booking experience				
Perceived trust toward the company	8.09	< 0.01	0.06	β = - 0.09**
Repurchase intention	10.99	< 0.01	0.07	β = - 0.12**
Covariate | Refund experience				
Perceived trust toward the company	1.01	*(n.s.)*	-	-
Repurchase intention	2.02	*(n.s.)*	-	-
Main effect | Polarity of change				
Perceived trust toward the company	42.33	< 0.01	0.24	$M_{POS} = 3.83 > M_{NEG} = 2.65$**
Repurchase intention	32.07	< 0.01	0.19	$M_{POS} = 3.76 > M_{NEG} = 2.59$**
Interaction effect | Polarity of change x Magnitude of change				
Perceived trust toward the company	6.33	< 0.01	0.09	Negative: $M_{High} = 2.37 < M_{Low} = 2.92$**
				Positive: $M_{High} = 4.20 > M_{Low} = 3.46$**
Repurchase intention	4.39	< 0.05	0.06	Negative: $M_{High} = 2.36 < M_{Low} = 2.82$**
				Positive: $M_{High} = 4.13 > M_{Low} = 3.39$**

Note. *(n.s.)* represents p > 0.05; ** represents p < 0.01.

Table 2. Interplay of polarity of change in refund policy and refund format

Independent / Dependent variables	F	p [a]	η2	Beta coefficients / Contrast test [a]
Covariate | Perceived altruism				
Perceived trust toward the company	6.68	< 0.01	0.02	β = 0.23**
Repurchase intention	4.71	< 0.05	0.02	β = 0.23**
Covariate | Online hotel booking experience				
Perceived trust toward the company	10.83	< 0.01	0.03	β = -0.06**
Repurchase intention	14.94	< 0.01	0.05	β = -0.09**
Covariate | Refund experience				
Perceived trust toward the company	2.63	*(n.s.)*	-	-
Repurchase intention	2.57	*(n.s.)*	-	-
Main effect | Polarity of change				
Perceived trust toward the company	65.36	< 0.01	0.17	$M_{POS} = 3.93 > M_{NEG} = 2.96$**
Repurchase intention	40.49	< 0.01	0.12	$M_{POS} = 3.67 > M_{NEG} = 2.76$**
Interaction effect | Polarity of change x Refund format				
Perceived trust toward the company	6.60	< 0.01	0.04	Negative: $M_{Cash} = 2.72 < M_{Credit} = 3.21$**
				Positive: $M_{Cash} = 4.11 > M_{Credit} = 3.74$**
Repurchase intention	5.44	< 0.01	0.03	Negative: $M_{Cash} = 2.48 < M_{Credit} = 3.04$**
				Positive: $M_{Cash} = 3.85 > M_{Credit} = 3.49$**

Note. *(n.s.)* represents $p > 0.05$; ** represents $p < 0.01$.