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APPLICATION OF THE THEORY OF PLANNED BEHAVIOR TO FRAUDULENT RETURNING

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Abstract

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Proper return policy provides an additional value for customers and therefore it can be a beneficial instrument in business strategy of a company. However, its efficiency is harmed due to the return fraud that increases the total cost for reprocessing of returned products. The article contributes to the discussion of factors that stimulate and discourage the return fraud in the retail by suggesting a model, which is proposed on the basis of the theory of planned behavior. Path analysis was conducted with the data of 207 respondents to test the validity of the model.

return fraud, return policy, behavior, modeling, path analysis

In the U.S., the liberal return policy resulted in a dramatic growth in returned goods, because the customers learnt to abuse the system. They returned the goods and claimed the money back even in situations that contradict the legislation or conditions of returns set by the merchandiser (Harris, 2008). This means additional cost for companies, especially for their reverse logistics systems (Rogers and Tibben-Lembke, 1998).

In the marketing literature, the abuse of return policy is labeled as deshopping, fraudulent return, boomerang shopping or borrowing. This opportunistic behavior belongs to the same illegal and unethical category as shoplifting, fake insurance claims or intellectual property theft (Wirtz and Mccoll-Kennedy, 2010). However, the public condemns the return fraud less compared to other types of illegal activities (Muncy and Vitell, 1992; Harris, 2008). What is important, the fraud intention is not always apparent in the moment of purchase, but it can come into existence later on (King and Dennis, 2006).

The Extent of Return Fraud and its Economic Consequences for the Retail

One third of customers were able to recall their intention (within the last six month) to abuse the return policy somehow in an experiment (Reynolds and Harris, 2005). According to (Piron and Young, 2000) 18 percent of customers had personal experience with return fraud (of apparel). In another research (King *et al*., 2008), it was 50 percent of women. Harris (2010) reported about 90 percent of customers having admitted return fraud.

For retailers, the unpleasant fact is that the return fraud has a growing tendency (King *et al*., 2008). According to the survey carried out among 111 retailers in the US, the estimated loss caused by return fraud increased from $9.59 billion to $13.95 billion. The most critical season, when return fraud regularly shoots up, is the holiday: one fourth of annual return frauds happen in this time (Return fraud to cost retailers $3.7 billion this holiday season, according to NRF, 2010).

Some companies changed their return policies to be more conservative in reaction to the growing tendency of return fraud (Spencer, 2002; Bhatia, 2004).

The Motivation for Return Fraud

Several researchers tried to identify the motives of return fraud. For example Piron and Young (2000) discovered the following broad categories of motives for return fraud of apparel:

- Social – borrowing for special social occasion
- Economic – economic circumstances did not allow a customer to buy the product
- Personal satisfaction of a customer

- Professional – the need for the apparel results from the job position of a customer
- Altruistic needs – return fraud realized in order to please other people.

The respondents of (King and Dennis, 2003) confirm the above conclusions: the customers justify the return fraud by social and economic needs, or by retailers' high prices and liberal return policies. The return fraud is an accepted norm for some customers; it is a rational and calculated behavior (Harris, 2010).

The customer behavior in favor as well as against return fraud is influenced by other people (King and Dennis, 2003). The success in fraudulent returning deepens the knowledge of return policy and related procedures, which in turn support the confidence of customers in the further return fraud attempts. In customers' eyes, this leads to a better perceived behavior control over the respective situation (King and Dennis, 2006).

For understanding return fraud, other relevant findings come from service guarantees research: some customers do not seek full compensation and are satisfied with partial compensation only. Due to this decision the customers are able to perceive themselves positively, i.e. to be behaving ethically correctly (Mazar *et al*., 2008). For managers, the following finding is of high importance: the customers that achieved higher compensation as a result of a guarantee abuse are not more satisfied. The authors explain this fact by customers' belief that the higher compensation resulted from their effort and not from a company's effort (Mazar *et al*., 2008).

The Profile of Opportunistic Customers

The demographic characteristics of the customers who abuse the return policy have been the object of research since the middle of 1970s, however, the conclusions are ambiguous. According to recent research (Harris, 2008), women, younger and less educated consumers are more prone to abuse the return policies, which complements the findings of Muncy and Vittel (1992) that women, younger and less educated consumers as well as low-income customers see the return fraud to be less ethically problematic. However, the psychographic factors are of higher importance than the demographic ones (Harris, 2008). The return fraud relates to: the level of public self-consciousness (negative relationship), knowledge of returning rules and regulations, consumption-related, thrill-seeking needs, past experience of fraudulent returning, consumer anomia, social norms, attitude toward complaining, and consumer fraudulent return proclivity.

The Procedures of Abusing Return Policies

A typical example of return fraud is the return of shoplifted goods to the retailer or returning the products bought by means of fraudulent payments. The third most common category is "borrowing", i.e. returning products that were intentionally bought to be returned later, after a short time of use (Return fraud to cost retailers $3.7 billion this holiday season, according to NRF, 2010).

Conducted in-depth interviews among 87 retailers and 96 customers found out the general procedures and the measures the customers use successfully when returning a product fraudulently. Customer knowledge of return policies, exploiting relational ties, judicious timing, selection of suitable products, appropriate interaction style or feigning personal connections are the examples of such measures (Harris, 2010).

Apparently, only a small portion of these factors can be affected by retailers themselves (Harris, 2010). The factors also stress the importance of shop-assistants in the process of a product return. It was confirmed experimentally that in a situation when a customer behaves in a socially acceptable manner shop assistants tend to oversee some rules set by the retailer for product returns and subsequently they sometimes accept the product back groundlessly (Autry *et al*., 2007). Mistakes are made by the responsible shop managers as well, when they revise the rejecting decision of shop assistants to satisfy (e.g. angry, unpleasant) customers. This frustrating experience diminishes the willingness of the shop assistants to adhere to the retailer's return policy strictly (King *et al*., 2007).

MATERIALS AND METHODS

Research Aim

The majority of research into fraudulent returns was conducted in the US or the UK (King and Dennis, 2006), therefore it is useful to extend this research to other countries to find out if this opportunistic behavior is globally universal and if it exceeds cultural, legislative and geographic boundaries. Our research follows this way in its first aim, which is to conduct a survey mapping the extent of return fraud in Czech consumers. Secondly, we try to determine and measure the factors stimulating the intention to return fraud.

Model Formulation

The proposed research is based on a model that applies the theory of planned behavior to explain the motives for fraudulent returning.

The theory of planned behavior belongs to the group of theoretical models that try to explain human behavior. The theory assumes the decision on the behavior is a result of balancing the probability of achieving the goal of the behavior and the expected value of the outcome. The individuals prefer the behavior that maximizes the positive and minimizes the negative outcomes (Hewstone and Stroebe, 2006).

Intentional behavior is predicted by a personal attitude to the behavior and by the opinions of others about the respective behavior (i.e. social

norm). The attitude represents the evaluation of behavior and its outcomes. A subjective norm consists of perceived and expected evaluation of the behavior by persons that are able to affect the individual's behavior.

Generally, the people prefer behavior that can be controlled and performed easily. This constitutes a third variable – the perceived behavioral control. The actual control is hard to measure, so the perceived control is used instead in the majority of research (Ajzen, 2011).

According to the authors of the theory of planned behavior, the predecessor of behavior is an intention that indicates the amount of effort the people are willing to perform to realize the behavior. Thus, the influence of the attitude, subjective norm and perceived behavior control on behavior is mediated by the intention.

The theory of planned behavior is broadly used in many disciplines. Generally, it is able to explain up to 39 percent of the variance in intention and up to 27 percent in behavior. The three exogenous variables (attitude, subjective norm and perceived behavior control) were proved to be related to intention. Intention and perceived behavior control are related to behavior (Armitage and Conner, 2001). The theory of planned behavior is useful in designing the measures, whose aim is to change the undesirable behavior to desirable. Therefore this theory is appropriate for studying fraudulent returning (King *et al.*, 2008).

Hypotheses (that also include the structural model in Fig. 1) are formally defined as follows:

H1: Attitude toward fraudulent returning is positively related to intention.
H2: Subjective norm is positively related to intention.
H3: Perceived behavior control is positively related to intention.
H4: Perceived behavior control is positively related to behavior.
H5: Intention to fraudulent returning is positively related to behavior.

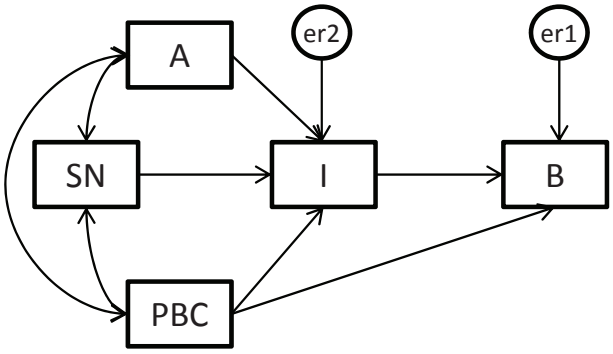
The research objective is closely related to the ethical aspects of behavior. As stated in the literature review section, the customers themselves are aware of the unethical dimension of return fraud (King and Dennis, 2006). Therefore we have to take this fact into consideration when we formulate and interpret the results of survey among customers. This remark is valid especially for the one ethically sensitive question in the questionnaire (question about the personal experience with return fraud – B).

Pilot Research

Before the questionnaire was formulated and data collected, the pilot research was conducted to roughly estimate the extent of return fraud among Czech customers. A group of twenty randomly selected people was asked three open-ended questions. After simple content coding and frequency count it was found out that respondents had no previous experience with return fraud, more

I: *The variables of the model*

Variable	Variable indication	Wording of questions
Behavior	B	Have you ever tried to return a product, although you knew it was unjustified? (never – many times)
Intention	I	In case I do not need an intact product any longer, I will try to return it back to the retailer. (strongly disagree – strongly agree)
Attitude	A	It is my right to return the product back, although I have used it successfully. (strongly disagree – strongly agree)
Subjective norm	SN	If my friends damaged a product, they would not try to return it back to the retailer and claim compensation. (strongly disagree – strongly agree)
Perceived behavior control	PBC	When a product becomes unnecessary, it is difficult to return this used product back to the retailer. (strongly disagree – strongly agree)



The variables of the model:

Number of variables in the model: 7
Observed endogenous variables: I, B
Observed exogenous variables: PBC, A, SN
Unobserved exogenous variables: er1, er2

1: *Graphical presentation of the proposed model*

precisely they denied that they had conducted such behavior in the past. None of the respondents tried to abuse the return policy. One respondent admitted that he considered this, but he failed in the course of realization (without stating any reason for that).

The pilot research indicated that return fraud will probably not be wide-spread among Czech customers.

RESULTS

The data were collected in May and June 2011 through a printed questionnaire among 250 students in regular- and distance learning. However, the final sample had to be reduced to 207 cases because 43 (18%) respondents did not answer the ethically sensitive question about personal experience with return fraud (B – the dependent variable). The imputation of missing values would be very problematic as imputation in case of dependent variable could distort the calculations of the whole model (Hair *et al.*, 2010).

All the five variables represented the answers to the scale questions, with values –3 to +3. Thus, the outliers' identification was skipped. Unfortunately, the data did not fulfill the requirements of normality, which was tested visually and by means of Shapiro-Wilk test W. The most common problem – the negative skewness of data – was corrected by power and square root transformation as suggested by (Leech *et al.*, 2005; Hair *et al.*, 2010; Tabachnick and Fidell, 2006). As the results calculated on transformed variables were almost identical to the results based on the original data, we turned away from transformation and all the presented numbers come from non-transformed data. Our case provides further evidence concerning robustness of structural equation modeling (more precisely of the path analysis) when applied on the sufficiently large samples (see Hair *et al.*, 2010).

Research Sample Description

In the final research sample, the share of men (54%) slightly outweighed the share of women (46%). The average age was 24.5 years and the respective median achieved 23. The respondents considered their financial situation to be somewhat good; more precisely slightly above the average when compared to their environment.

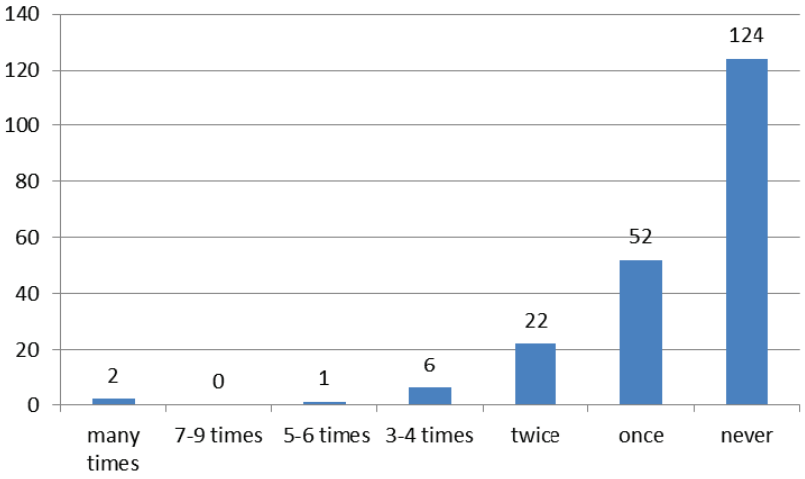
Czech customers' experience in fraudulent returning

The most critical question in terms of statistical modeling was represented by the dependent variable B – respondents' experience with fraudulent returning. Similarly to other statistical methods, the path analysis (structural equation modeling) requires a sufficient variability in data. In this respect the B variable is far from the ideal: 60% of respondents never tried to abuse the return policy (see Fig. 2). The remaining 40% experienced it inconsiderably. All in all, the variable of B enters the calculations with a very low variability, which negatively affects the reliability of results.

Speaking about factual interpretation of this result, Czech consumers seem to be substantially less engaged in fraudulent returning compared to foreign experience of (Piron and Young, 2000; King *et al.*, 2008; Harris, 2010).

Statistical Test of the Model

The essential indicator of the statistical validity of the path model is χ^2. Its value (2.314; p = 0.314; Df = 2) suggests that the model can be accepted, i.e. the proposed relations between variables are supported by the empirical data. The results of other widely-used indicators like Comparative index fit (CIF = 0.998) and RMSEA (0.028) are in harmony with the statement. Because several indicators proved the statistical validity, the model as a whole can be accepted and it is sensible to analyze the detailed calculations.



2: *Frequencies of return fraud experience*

II: *Parameter estimates of the model*

Regression Weights			Estimate	S. E.	C.R.	P	Standardized Regression Weights	Hypothesis testing
I	<--- (H1)	A	0.1	0.044	2.291	0.022	0.146	supported
I	<--- (H2)	SN	–0.02	0.009	–2.291	0.022	–0.136	supported
I	<--- (H3)	PBC	0.056	0.008	6.906	0.000	0.44	supported
B	<--- (H4)	PBC	0.009	0.007	1.354	0.176	0.097	rejected
B	<--- (H5)	I	0.287	0.052	5.493	0.000	0.394	supported

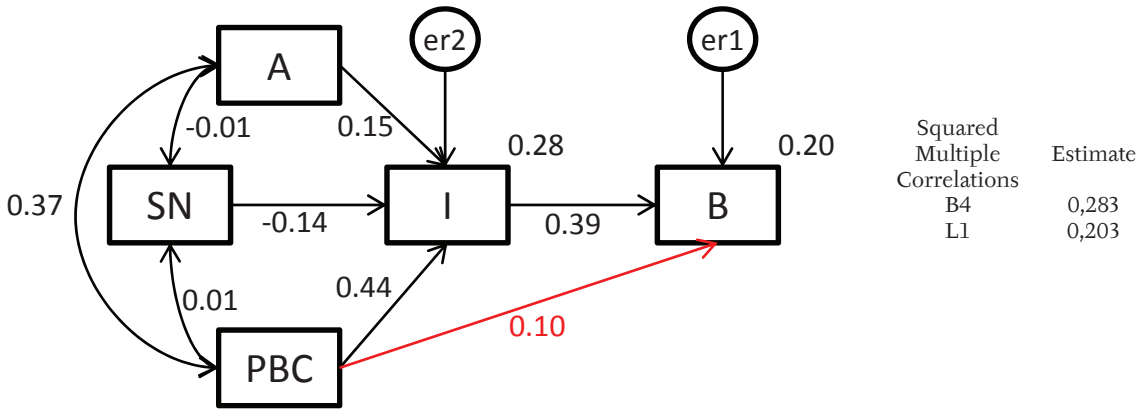
The structural relationships in the model are statistically significant except for the relation between perceived behavior control and behavior (H4 hypothesis), see Tab. II and Fig. 3. In other words, the H1, H2, H3 and H5 hypotheses cannot be rejected; therefore they can be accepted temporarily. The standardized regression coefficients supply another piece of information: there is a modest relationship between intention and behavior (0.39). The strongest coefficient was found between perceived behavior control and intention (0.44), which is similar to the findings of King *et al.* (2008) and Chang (1998) and partially of Harris (2010). Weak relations were identified in attitude (0.15) and subjective norm (–0.14) toward intention, which contradicts to (Chang, 1998), where these relationships were found to be of modest intensity. The negative value of the coefficient in subjective norm reflects the opposite polarity of the respective question about subjective norm and therefore the negative extent was expected. The model explains 28 per cent of the variance in intention and 20 per cent in behavior.

CONCLUSIONS

The perceived behavior control appears to be the most important variable out of the exogenous variables defined by the model. If customers consider return fraud to be difficult, their intention to abuse the return policy and to take advantage of it is less and the performing this behavior is less frequent. The relative importance of perceived behavior control in comparison to attitude and subjective norm suggests that retailers who are facing the problems of return fraud should modify their return policies in the first place. They have to find out and implement the measures that complicate the opportunistic behavior. And only then they should employ some activities, which will affect a change in customers' beliefs (which in turn change their attitude and subjective norm). A communication campaign pointing out the negative consequences of return fraud and its unethical dimension would be an example.

If Czech consumers are similar to their foreign counterparts, the success of such a measure could be a big question mark, because the customers are aware of the fact that return fraud is unethical. The communication campaign would not bring new information for them. Probably a better example is given by King *at al.* (2008), who speaks for rational argumentation in a campaign: return policy is an instrument useful not for a retailer or a customer alone, but for both sides of a contract. In the eye of a customer, the return policy diminishes the risk of a mistaken purchase.

However, the interpretation of the theory of planned behavior is not so straightforward. The



3: *Standardized regression coefficients of model of fraudulent returning*
Note: The red color depicts the statistically unreliable relationship

behavior can be changed substantially by affecting variables of not only strong, but also weak links to intention (Ajzen, 2010). In our model of fraudulent returning, attitude and social norm are such variables that we should focus on in the first place if we accept the importance of weak relationships.

When drawing a conclusion, the suggestions to retailers must be proposed realistically. The retail is able to modify the return policy and in this way to affect the perceived behavior control of customers. On the contrary, the change in attitude and subjective norm would require measures that are more likely unattainable for retail. Next, the problem of ethical behavior is not a problem of a single retailer, but of the whole society. Perhaps this could be the task for retail associations and federation for instance. They could raise money to start a communication campaign, which would be geographically dispersed and long-term running to bring the expected effects.

The proposed findings have to be relativized to a certain extent due to several limitations. First, although the indicators of statistical validity signal that the model is acceptable, both the low variability of dependent variable (B) and its high non-response rate (18 percent) can affect the results seriously. The low variability itself can simply reflect the fact that Czech customers do not abuse the return policies. However, this could be also a result of bad measurement – bad wording of questions. The validity of this variable could be improved if respondents were given different examples of return fraud because they might not recognize some behavior to be ethically incorrect (i.e. to be retnurn fraud).

This also leads to the second major limitation. The research design was based on a direct measurement of variables, which are typically considered to be latent. Employing more sophisticated methods of structural modeling (confirmatory analysis namely) would increase the validity of measurement. This is a space for further research.

In the context of further research, the notice by (Goudge *et al*., 2010) is inspiring. The authors pointed out the fact that the majority of published work deals with consumers' unethical behavior. However, the customers are sometimes suspicious about the retailers' practices and are afraid of being cheated by them. In their eyes, taking the advantage of return policy is a measure to be protected against dishonest retailers.

SUMMARY

Return fraud belongs to the same illegal and unethical category as shoplifting, fake insurance claims or intellectual property theft. The unpleasant fact is that the return fraud has a growing tendency. As a reaction to that, some companies changed their return policies to be more conservative. The researchers try to identify the motives of return fraud and they typically focus on social, economic, professional or even altruistic needs. However the majority of this research was conducted in the US or the UK. Therefore the aim of the article is to presents results of a survey conducted in the Czech environment; more precisely the aim is to determine and measure the factors stimulating the intention to return fraud. Based on the theory of planned behavior the factors of attitude, subjective norm, and perceived behavioral control were chosen. Statistically valid path model tested on data for 207 respondents proved that the conservative return policy (better to say perceived behavioral control) is a significant factor that can partially eliminate such an unethical behavior, or more precisely the intention to it.

As the author of theory of planned behavior points out, the behavior can be changed substantially by affecting variables of not only strong, but also weak links to intention. In our model, attitude and social norm are such variables; however it is not realistic to expect that the retail itself has such measures at disposal that would affect attitude or subjective norm. Thus the findings support the decision to make return policy more conservative in case a company is facing extensive fraudulent returning.

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