

CHAPTER II

REVIEW OF LITERATURE

Home repair fraud is prevalent in our country. This type of fraud has been a problem for decades, yet there is little research that separates this type of fraud from other consumer fraud. Older consumers are most at risk for becoming a victim of fraud because of their frailty and trusting nature. Losing money from a bad consumer decision can be devastating for an older consumer as they are often on a fixed income.

Older consumers and fraud

Accurate statistics for home repair fraud are not readily available for two primary reasons. First, police departments do not keep separate records of fraud crimes (Friedman, 1992). The other reason is that many fraud crimes are not reported. Older consumers in particular are reluctant to report fraud. This is due to the feared problems associated with admitting that they were a victim (Friedman, 1992).

Garman, Miescier, and Jones (1992) conducted a study involving the knowledge of consumer rights and legal protection. Different age groups were compared and it was found that older consumers are at a disadvantage over younger consumers in the marketplace. They found that as age increased, the knowledge of consumer rights and legal protection decreased. The widowed and those who had never been married scored the lowest among the different marital status groups. These also were the groups who were the persons solely responsible for making the decisions in their household. It also was indicated that the nation as a whole needs more education about consumer rights and legal protection, as the overall knowledge of consumer rights and legal protection was low in their study.

In a study of consumer perceptions of deceptive and unfair practices, and the complaining behavior of older adults, Zaltman,

Srivastava, and Deshpande (1976) found that older consumers are less likely to feel that they have been treated unfairly and they are less likely to complain. They also found that older consumers who were less socially involved in community organizations were less likely to complain. Their study indicates that programs should be developed to increase the awareness of older consumers to unfair business practices, and to provide information about where the consumer can go to redress complaints.

Burton and Hennon (1980) conducted a study to fill gaps in the literature about older consumers. Older consumers in their study were members of senior citizen centers and the minimum age for participating was 55 years old. The first part of their research addresses the consumer problems of older consumers. Development of educational materials designed to address those problems, and an evaluation of the impact of the educational materials will follow this study. The final project will be used to create a consumer education program for older consumers. The first part of three studies was conducted to make an assessment of the consumer problems of the elderly consumer. Research to identify specific concerns of the elderly consumer is scarce.

Senior citizen center organizations in Utah, Colorado, and Montana provided the sample for this study. The assumption was made that senior citizens in these groups would be more likely to participate in consumer education programs and specifically, in the programs that would be developed from the study.

In their sample, home repair was ranked fourth in concerns of the older consumers (Burton & Hennon, 1980). They also found that most senior citizen participants do not see the need for consumer education. The researchers believe that their findings can be generalized to other senior citizen populations based on the similar findings from the repetition of the study by another group in Alberta, Canada. However, they do caution the use of

the results in other parts of the country, because there may be similarities between the population in their study and the one in the Alberta study.

Friedman and Wasserman (1978) studied older consumers' experiences with selected purchases in the academic community of Ann Arbor, Michigan. The participants in this study were all 60 years old or older. The six purchases were: eyeglasses, funeral services, hearing aids, home appliance repair services, home repair services, and nursing home care. These were chosen because they are all big expense purchases for which a large number of complaints have been reported throughout the country. The subjects were asked about purchase experiences within the past three years, the satisfaction level with the purchase, and any complaint actions that followed. They found that home repair purchases were the second most expensive, with an average cost of \$796 (p. 303). Of the 228 participants in the study, one hundred individuals reported purchasing home repairs services in the previous three years (p. 303).

In their discussion, the authors note that although they conducted their study in one community, therefore limiting external validity, the study did allow for a greater understanding of the older consumers and their purchase experiences in that community (Friedman & Wasserman, 1978). The researchers found that most of the older consumers relied on their own knowledge and previous experiences for information when making the decisions for these purchases. The lack of a search outside their experiences for information may be derived from limitations placed on them by their lack of transportation, energy, and income.

Home repair fraud

Many types of fraud are experienced by older consumers in this country. According to Friedman's study with bunko

investigators (1992) the three most often occurring swindles are the pigeon drop, the bank examiner, and home repair fraud. All three of these scams use the persuasive nature of the scam artist to gain money from the victim. This study was done with bunco investigators who investigate these crimes to increase knowledge about the scams and the characteristics of the victims. For home repair fraud, it was found that there was usually more than one swindler, and the fraud was most likely to involve the victim's driveway. Another characteristic of home repair fraud that was found in this study was that the swindler begins the fraud by being very nice to the victim, but if refused payment, can become demanding.

Miller and Petrich (1986) explored the consumer problems and behaviors of older adults. The age minimum for this study was 62 years of age, which was chosen because of the correspondence with the time that the participants might start receiving Social Security benefits. Interviews were conducted to identify the problems the older adults had encountered and what they had done about them. Interviews were used to avoid written responses because of the possible reading difficulties in this population. One interviewer conducted the interviews, which contained both open and closed ended questions. Thirty-four percent of the sample felt they were dissatisfied or deceived with a purchase or service. Several comments were made by older females who felt that they had been taken advantage of during situations involving home repair services. The researchers conclude that the results of this study indicate that consumer education programs should include information about addressing complaints.

A study on the victimization of persons by personal fraud conducted by Titus, Heinzelmann, and Boyle (1995) studied the demographics of victims, the prevalence of personal fraud victimization, and the effects of the fraud. This telephone survey of 1,246 people included persons age 18 and older. The

researchers compared demographic information to determine if there was a correlation between characteristic factors and fraud victimization.

The survey asked the respondents about past experiences with fraud victimization for 22 fraud items (Titus, Heinzelmann, & Boyle, 1995). Despite the assumption by members of the criminal justice system that the elderly population is the population most victimized by fraud, the researchers found the opposite in their study. They found that younger consumers were more likely to be victims of fraud. They also found that there was no demographic indicator that would determine if a person would be a victim of fraud if an attempt was made. Attempts of fraud were more successful for respondents who had not heard of the type of fraud before, and if the respondent did not try to find out information about the person or offer before a decision was made. Only 15% of the victims in the study reported the incident. Home repair fraud attempts were reported by 18 respondents. Twelve of those were successful attempts, meaning that the person had been a victim of fraud (Titus, Heinzelmann, & Boyle, 1995).

Decision-making for the older consumer

Hyman (1990) conducted a study to determine how consumers made decisions related to the deregulation of the telecommunications industry. Consumers of all ages were used for the study. Older consumers were considered to be people 60 years old and older. The consumers were required to make a decision about the deregulation the year before the study, therefore the researcher was able to inquire about how that decision was made. Due to the widespread need for information dissemination, there were articles in the media relating to the telecommunications industry, as well as information available from the companies, consumer groups, and regulators. A telephone interview, using random digit dialing, was conducted. The response rate was 60

percent, with a final sample of 500 people that completed the interview (Hyman, 1990).

Hyman (1990) found that two out of three of the consumers in the study reported making the telecommunications decision by themselves, or mostly by themselves. One third of the sample reported receiving considerable help. It also was found that 51 percent of the sample used the information provided by the telephone company to make their decision. Thirty-nine percent consulted friends or family, and 33 percent used the print media (newspapers, etc.) for information. Twenty-five percent of the sample used the broadcast media (Hyman, 1990). Of interest is that less than one percent used information obtained from government sources or community groups. The study also found that the majority of the sample did not try to influence the decisions of others about their telecommunications decisions. Only five percent complained to the telephone company about problems, and less than two percent contacted community leaders, newspapers, magazines, or government leaders about the issue (Hyman, 1990).

Hyman (1990) used the information from the study to create a Consumer Decision-Making Scale (CDS). The CDS is based on the level of knowledge, weighed with the independence of decision, the propensity to use information, and by the propensity to influence the decisions of others. Using this scale, it was found that consumers with greater knowledge and independence in making decisions have a greater tendency to seek information from more sources and to influence others in their decision making. A larger percentage of the older consumers ranked low on the CDS, meaning that they exhibited less independence in their decision making, they used fewer types of sources, and they were less likely to influence the decisions of others (Hyman, 1990). Education appeared to play a role in the CDS, as consumers with

more than a high school education scored higher than consumers with a high school education or less.

Education of the older consumer

McGhee (1983) indicates in his review of research related to the vulnerability of elderly consumers that one of the most important ways to help consumers from becoming victims of fraud is through education. Based on the findings of their study using interviews, Miller and Petrich (1986) recommend several ideas for educating older consumers. The findings of the study suggest that older consumers have been dissatisfied or deceived with a purchase or service. They recommend programs be presented dealing with services related to home repair, saving money on energy, and home ownership. The goal is for consumer fraud to be reduced in the United States by educating consumers on the types of fraud and how to avoid becoming a victim.

Burton and Hennon (1980) conducted a study to determine the consumer problems of older consumers. They conducted the study in three parts in order to develop a consumer education program for this population. Results of the study indicate that "consumer education programs can be more conveniently administered to previously structured groups" (p. 369). Friedman and Wasserman (1978) suggested that peer group counseling be used as a form of consumer education. One method of peer group counseling is to have older consumers discuss their recent positive and negative experiences with purchases.

Stampfl's (1978) consumer life cycle model discusses consumer elements over the course of a person's life, rather than as a single event in time. This longitudinal study of the life cycle model includes information for each stage about consumer characteristics, typical products and services, marketplace concepts and knowledge, marketplace skills, typical marketplace problems, and level of resources (time, income, and human energy)

(Stampfl, 1978). Stampfl (1978) indicates that the life cycle model can be used to determine what types of consumer education programs are necessary at different stages of life and based on the six variables.

There are three categories in which the older consumers in this study belong (Stampfl, 1978). These are "Empty Nest" (both with and without the head of household in the labor force, "Older, Solitary Survivor; in Labor Force," and "Solitary Survivor; Retired." For all of these categories, there are similarities among the consumer elements. Limited incomes are difficulties for older consumers who are retired and home ownership is at its peak at this time. Also, home improvements and household services are typical during this time. Typical marketplace problems are obtaining household services, home improvement schemes, reading labels, exploitation by in-home sellers, and lack of mobility. Also at this time, income is limited and leisure time is excessive (Stampfl, 1978).

Media sources

Chafetz, Holmes, Lande, Childress, and Glazer (1998) surveyed 868 older adults about their use of the media news, opinion of the news coverage about older adults, and their preferences among the terms used to refer to this population group. To participate the older adults needed to be living in the community, older than age 55, able to read English, and able to see well enough to read.

They found that older adults with more than a high school education read the newspaper more than those with a high school education or below a high school education. Another finding was that men read the newspaper more than women. Television viewing was reported more frequently as an activity than reading the newspaper. Radio was the least used of the media by this sample (Chafetz et al., 1998).

The results of this study indicate that older people are very interested in news stories about older adults. More women (73%) than men (51%) were interested in these stories. The five preferred nouns used to refer to older adults were senior citizen (75%), retiree (70%), senior (67%), grandmother/grandfather (61%), and older adult (47%)(Chafetz et al., 1998). The four most preferred adjectives were retired (73%), senior (71%), mature (68%), and fifty-five-plus (58%).

In a study to determine the media preferences of older and younger adults, Mundorf and Brownell (1990) found that older adults watch more television than younger adults. The study compared undergraduate college students and an elderly population in New England on their television viewing and magazine reading. The elderly population included people age 65 and older. The study included questions about the amount of television viewing, the types of programs preferred, and the reasons for watching television. The two hundred and ninety-seven respondents completed a survey that provided the researchers with self-reported data, rather than actual television viewing time.

The findings related to television viewing in this study varied from the results of previous studies. Earlier studies found that older females watched more television than older males, yet the findings in this study showed that there were more older males than older females among the heaviest television viewers. Also, television viewing between the age groups was not as different as the researchers had expected.

Respondents were asked about the magazines they read and with what frequency. Magazine reading differed between the two groups. The younger group preferred such magazines as Sports Illustrated, Cosmopolitan, and Vogue, while the older group preferred Reader's Digest, Better Homes & Gardens, and McCalls (Mundorf & Brownell, 1990).

In their study about consumer problems of older consumers Burton and Hennon (1980) found that the media sources older consumers most desired for consumer information were television and newspapers. They also found that there may be some differences among groups favoring information from senior centers, with rural participants ranking them last in preferred source of information. Also, rural respondents preferred radios and magazines more than urban respondents.

Theoretical model

Deacon and Firebaugh (1988) outline the steps in the decision-making process. The first step is recognizing that there is a need for a decision. The second step is identifying and weighing alternatives. Alternatives need to be generated or identified based on values and goals of the people involved in the decision that is to be made. The number of alternatives depends on the importance of the decision to be made and the the person generating the alternatives. The person generating the alternatives may need to search for information in order to generate more alternatives.

The final step in the decision-making process is choosing between the alternatives that have been generated or identified. The alternative that is chosen is based on the expected outcome and the risk of choosing a given alternative (Deacon & Firebaugh, 1988).

Park and Lessig (1981) studied consumer decisions and the relationship of familiarity with those decisions. The subjects for this study were 99 women living in a midwestern college community. The subjects were called by the researcher to determine if they had used a microwave, if they owned a microwave, and if they had ever searched for information on microwaves. Based on the answers to those questions, the

subjects were then grouped by their familiarity with microwave ovens.

The purpose of this study was to study the alternative choices by the subjects for decisions involving microwave ovens (Park and Lessig, 1981). The researchers wanted to ascertain if there was a relationship between familiarity with the product (microwave oven) and the decision whether or not to choose that item. They found that there was a relationship between familiarity with microwave ovens and the decision made. Also, they found that the subjects with more familiarity about microwave ovens were more confident in their decision about the purchase. Some support was found for their hypothesis that the more familiar one is with a product, the less time taken to make a decision.

Turley and LeBlanc (1993) conducted a field study to gain an understanding of the decision-making processes involved with the selection of services. A questionnaire was used to ask questions about the last service that the consumers had purchased. The respondents were asked to describe the last service purchased, the number of services that they considered, and the number of features they used to decide on the service (Turley & LeBlanc, 1993). They also were asked about the amount of risk involved in the purchase of the service. Participants were obtained from a local mall. One hundred and fifty-six adults were approached with 38 refusing to participate and 18 only supplying partial information. The remaining 100 people were the sample used in the study (Turley & LeBlanc, 1993).

For the majority of the service decisions described by the participants, one or two service firms were contacted before a purchase decision was made. The average number of features that were considered for these service purchases was three features (Turley & LeBlanc, 1993). They found that almost half of the risk felt by the respondents was due to the quality of the

service to be performed. About one-third of the risk felt was associated with making a financially poor purchase decision. The researchers found that most of the consumers eliminated all but one or two of the service providers early in their decision making process. The consumers then concentrated their decision making on the remaining providers. This is different from the way people make decisions about products. The researchers believe this to be due to the fact that services require more time and energy in the decision making process than products. Their findings indicate that the decision making process for services is different from the one for durable goods. The risk factor is different for different services, but financial and quality risk were associated with many services (Turley & LeBlanc, 1993).

Summary

The lack of literature on home repair fraud indicates that more research needs to be conducted on this topic. Older consumers are especially vulnerable to the scam artists that perform many of these frauds. Despite the fact that older consumers may feel that consumer programs are not warranted, the research indicates that more consumer programs are needed. These programs should include information on how to address complaints and stories from other older consumers on what has happened to them. The mass media is another way to reach consumers. The preferred method of media sources should be determined in order to reach the largest audience.