

CHAPTER 2

LITERATURE REVIEW

This chapter reviews some of the major concepts on consumer decision making and other related concepts such as consumer behaviour, concept of beliefs, the choice process, search order, choice of information, consumer involvement, compensatory models of choice, etc. A brief discussion on previous studies related to home buying, the definition and justification on the model adopted by the researcher.

2.1 Theories and Concepts

2.1.1 Consumer Behaviour

Once it is understood that an organization could exist only as it fulfills its customers' needs and wants, the study of consumer behaviour becomes an essential part of doing business (Kotler, 1991).

The term "consumer behaviour" can be defined as the behaviour that consumers display in searching for, purchasing, using, evaluating, and disposing of products and services that they expect will satisfy their needs. The study of consumer behaviour is the study of how individuals make decisions to spend their available resources (money, time, effort) on consumption related items. It includes the study of what they buy, why they buy it, how they buy it, when they buy it, where they buy it, and how often they buy it (Schiffman & Kanuk, 1991).

According to Mowen & Minor (1998), consumer behaviour is defined as the study of the buying units and the exchange processes involve in acquiring, consuming, and disposing of goods, services, experiences, and ideas.

2.1.2 The Concept of Beliefs

Consumer beliefs are all the knowledge a consumer has and all the inferences a consumer makes about objects, their attributes, and their benefits. Objects are the products, people, companies, and things about which people hold beliefs and attitudes. Attributes are the characteristics or features that an object may or may not have. Finally, benefits are the positive outcomes that attributes provide to the consumer (Mowen & Minor, 1998).

Attribute importance is defined as a person's general assessment of the significance of an attribute for products or services of a certain type. Four elements determine the amount of attention consumers direct to an attribute: (1) characteristics of the message recipient; (2) characteristics of the message; (3) factors that influence the response opportunity of the recipient; and (4) the characteristics of the product (Mowen & Minor, 1998).

2.1.3 Consumer Information Processing

Consumer information processing is the process through which consumers are exposed to information, become involved with it, attend to it, comprehend it, place it into memory, and retrieve it for later use. There are three important factors influencing information processing: perception, the level of consumer involvement and memory (Mowen & Minor, 1998).

(a) Perception

Perception is the process through which individuals are exposed to information, attend to that information, and comprehend it. In the initial exposure stage, consumers receive information through their senses. Then, in the attention stage, they allocate processing capacity to a stimulus. Finally, in the comprehend stage, they organise and interpret the information in order to obtain meaning from it (Mowen & Minor).

(b) Consumer Involvement

Consumer involvement is the perceived personal importance and/or interest consumers attach to the acquisition, consumption, and disposition of goods, a service, or an idea. As their involvement increases, consumers have a greater motivation to attend to, comprehend, and elaborate on information pertaining to the purchase. The most important factors influencing a consumer's involvement level are: (1) the type of product under consideration, (2) the characteristics of the communication the consumer receives, (3) the characteristics of the situation within which the consumer is operating, and (4) the consumer's personality (Mowen & Minor, 1998).

(c) Memory

Memory is the faculty that allows consumers to anticipate the stimuli they might encounter and therefore to selectively expose themselves to desired stimuli. Similarly, memory influences attention processes by guiding consumers' sensory systems so they can focus selectively on particular stimuli. Finally, the expectations and associations elicited in memory by the stimuli encountered affect consumers' comprehension (Mowen & Minor).

2.1.4 The Decision-Making Perspective

The decision making perspective portrays consumers as taking a series of steps when making a purchase. These steps include problem recognition, search, alternative evaluation, choice, and post-acquisition evaluation. The roots of this approach are in cognitive and experimental psychology and certain areas of economics (Mowen & Minor, 1998).

The decision-making perspective emphasizes the rational, information-processing approach to consumer purchase behaviour. It is closely related to the high involvement hierarchy-of-effects approach to attitude formation. Herbert Krugman (1965) is perhaps the first author to suggest that the decision process

differ for high and low involvement purchases. He suggested that extended decision making occurs in high-involvement conditions, but limited decision making and less search behaviour, are the rule in low-involvement conditions. When consumers engaged in high-involvement decision making, it is generally because they perceive the purchase as one with significant risk (Hansen, 1972).

The most important characteristic of the first purchase is that the consumer does not have previous experience with the product. Consequently, the decision process must be generated by external information, and the subsequent evaluation relies upon external information. It is therefore not surprising that studies of innovation repeatedly have dealt with the use of secondary, tertiary, and personal information sources (Zaltman, 1965).

Besides, according to compensatory model of choice, people analyse each alternative in a broad evaluation fashion so that high ratings on one attribute may compensate for low ratings on other attributes. The computed rating reflects the brand's relative merit as a potential purchase choice. The assumption is that the consumer will generally select the brand that scores highest among the alternatives evaluated (Mowen, 1998; Schiffman & Kanuk, 1991).

The researcher employs the concept of this compensatory model of choice in the study to identify what will be the most influential factors to the buyers' choice of house, given the five major variables, i.e. price of the house, location, housing environment, house design, and developer's reputation as stated in the questionnaire.

As purchasing a house is often a household's largest durable goods which involves lot of resources to be spent on making the purchase decision and requires high-involvement of consumer. Thus, the researcher employs the extended decision making process and compensatory model decision rule in the study.

2.1.5 Choice of Information

How the consumer will react to the information depends upon the relationship between the source and content of the message and the receiver's salient cognitive structure. A particular piece of information is chosen according to the individual's expectations with regard to that information (Hansen, 1972).

The attractiveness of the available information alternatives is particularly important, and in the specific situation, it can be influenced by a large number of factors. In most situations these factors are likely to appear: (1) the effort needed to obtain the information, (2) the time pressure resulting from postponing the choice, and (3) the likelihood that the information will prove useful (Hansen, 1972).

How the usefulness of the information will influence the choice of sources depends upon the nature of the aroused conflict. The consumer's evaluation of the information relates to his expectations about the information's ability to help him reduce the conflict. Therefore the instrumentality of the information will depend upon how he expects the information to relate to his salient cognitive structure (Hansen, 1972).

With regards to choice of information in home buying, the attractiveness of the housing advertisement, the information that provided by various sources and the quality of the housing information would influence the buyers in searching for ideal home and their decision in making their choice of house.

2.1.6 The Search Order

In connection with problem solving, Simon (1958) and Cyert and March (1963) has suggested that information search follows a *least efforts* rule that implies that information sources are selected because of their availability and their ability to eliminate the need for further search.

As long as the satisfactory solution has not been established and as long as a deliberation and exploration is more attractive than any of the choice alternatives, the conflict will continue. In the choice process, one or more of the following values can become salient. First, a time value may be aroused. As the conflict continues the consumer will experience an increasing time pressure. Second, the effort associated with extended deliberation and exploration will become important. As the process goes on, more and more effort is needed in order to carry out the subsequent exploration. Finally, the likelihood of successful exploration will decrease (Hansen, 1972).

In home buying, once a person has a need towards owning a house, he would try looking for a house that meets his demand and requirements. These searching efforts will continue until he meets his ideal home.

2.1.7 The Choice Process

The overall nature of the choice process can be discussed in terms of its complexity, which in turn can be measured by the number of steps through which the process runs, the time it takes, the number of values involved in the evaluation of the alternatives, the importance of these values, the extensiveness of the exploration, the overall nature of cognitive activity, and like factors (Hansen, 1972).

In the course of the choice process, response alternatives are compared. In essence, comparison means that the individual asks how much conflict he will face if he chooses the most attractive alternative. It may result in one or two outcomes: Either a response is selected or deliberation and exploration continue. The first will be the case if one of the response alternatives is able to reduce the aroused conflict, or if the possibility of extended exploration and deliberation is less attractive than the best response alternative (Hansen, 1972).

Thus, from the search order, house buyers might have identified few alternatives which would be the likely choice of house. To determine on which house is more worth buying and best meets the one need, house buyers might evaluate the available alternatives by checking through various considerations in the choice of house, conducting a house inspection and make comparison among the alternatives before purchasing the house.

In home buying, a house is always a high-involvement consumer product and a big-ticket item, which entails significant risk of purchase. Thus, purchasing a house involves a complex decision-making process. In home buying, once the house buyers recognise that they has a need of owning a house, they will undergo a searching process for solution whereby they will search for the relevant information to facilitate decision making on buying a house. After conducting the research and acquiring all the relevant information, the buyer will evaluate all the alternatives and choose the best option according to the various determinant factors.

It is noted that there is not really any previous study on consumer decision making in homeownership. The researcher gathers the concept from various relevant sources that mentioned earlier and in brief depicted the decision making in home buying as stated above.

2.2 Definition

Residential property is a multidimensional commodity, characterized by durability, structural inflexibility as well as spatial fixity. Each residential unit has a unique bundle of attributes: its accessibility to work, transport, amenities, the structural characteristics, neighbourhood, and environmental quality (So, Tse and Ganesan, 1996).

Housing fulfils many roles for individuals within society. It is a form of shelter, and as such a basic necessity. However, not all houses are alike in their size,

physical structure or located within similar environments. The fact that houses are so diverse means that housing easily becomes an indicator of social placement within the reward system of the society (Szelenyi, 1972).

A house represents not only a collection of structural characteristics but also a set of location specific characteristics. At the local level, appraisers and market analysts have been increasingly interested in the impact of new developments on the location, or vice versa. Studies concerning the location, environmental and physical aspects of a property can be regarded as inputs to the basic valuation procedure (Tse and Love, 2000).

A home is often the household's largest consumer durable goods as well as a part of the investment portfolio. In many cases it is the household's only significant asset and represents a lifetime of savings (Johnson, 1996). Psychologically, a home can be a measure of independence and status, or it may bestow a pride of ownership – in the language of real estate brokers (VanderHart 1994). Hence, there are both economic and psychic benefits/costs associated with the decision to own a house (Rohe and Stegman 1994).

The researcher will use both the terms of "house" and "home" in the presentation of the report. To ease the process of analysis, the researcher will categorise both the traditional housing and condominium as house or home in the study.

Various types of property that have been built so far can be classified under two major headings, i.e. traditional housing and condominiums. Condominiums have been given special treatment because they become fashionable of late while traditional housing has been around for a long time. Traditional housing includes terraced or clustered or linked houses, semi-detached houses, detached houses, and flats or apartments. Condominiums are considered to be the result of a marriage between an apartment block and a private club as the condominium block usually incorporates facilities that are normally found in a

private club (Marbeck, 1994).

2.3 Previous Studies

A home is often the household's largest consumer durable goods as well as a part of the investment portfolio. Nevertheless, as each residential unit has a unique bundle of attributes which involves a complex decision making process. Thus, buying a house involves lot of resources to be spent on making the purchase decision. Many foreign and local studies have been done in order to enhance knowledge in this sector. The followings are some of the studies.

- 1) The survey by thestar.com.my on property as at January, 15th 2001 reveals that of the total 309 votes, 94% has chosen the option of built-then-sell instead of sell-then-build.
- 2) Suresh (1996) concludes that the prospective home buyer makes his choice based on the following consideration in order of important – cost, space factors, location and social composition of the neighbourhood. On top of that, distance from various facilities also influence the selection of condominium housing.
- 3) Adair, Berry and McGreal (1995) in their study on valuation of residential property have identified 55 variables which comprise both quantitative and qualitative aspects of housing and are believed to have most important influences in the residential choice decision. The variables are categorised into four groups, namely property, distance, environmental and financial characteristics. The property variable consists of house size; number of bedrooms; condition of exterior/interior etc. The distance variable includes distance to work; distance to city centre; distance to school; distance to shopping centre; proximity to bus route; travel time to work etc. The environmental variable covers condition of neighbourhood; attractiveness of the area; quality of neighbouring house; security from crime; traffic noise;

topography of the land etc. The financial variable encompasses interest rate; maximum mortgage; maximum monthly repayments; rateable value of the house etc.

- 4) Lim (September 23, 2001) has commented in Business on Property that there are some pointers to consider when looking to buy a residential property such as a condominium unit, i.e. the developer's track record, the neighbourhood, the overall development, the unit design etc.
- 5) The demand and supply analysis of the housing market with special reference to Klang Valley by Suresh (1996) indicates that purchasing a house has become the single biggest investment for most families, hence it involves a complex decision-making process. A buyer considers many factors when selecting a house. These include location (accessibility), physical characteristic of the development size and the particular unit, and cost factors.
- 6) A study by Weldon, Western and Tan (1973) concludes six factors that contributed to the structure of environmental satisfaction, i.e. general satisfaction with dwelling neighbourhood, ease of access to significant areas of activity, location and adequacy of basic facilities and services, quality of basic facilities and services, adequacy of services for children, and adequacy of transport services.
- 7) Bender, Din, Hoesli and Brocher (2000) have conducted a comparative study of perceptions concerning the environmental quality of residential real estate in Switzerland based on empirical data collected in three different linguistic regions. The analysis is based on pairwise comparisons between eight environment criteria, i.e. level of quietness, distance to public transportation, distance to city centre, quality of view, distance to shopping facilities, distance to nature, distance to schools, social standing of the area.

- 8) Sidek (2000) in her study on consumer satisfaction towards housing (a study of PKNS house buyers) concludes that price, location, large floor area, good construction and building materials quality, delivery period, clean and safe environment, and good neighbours are important attributes to house buyers.
- 9) Abdullah (1996) states that location is a fundamental factor in making house buying decision. The strategic, environmental and established locations are ambits of the general "location". Strategic location is concerned with the distances from the various amenities and work centres. Distances from the city, schools, shopping and recreational centres are seen as fundamental. The second aspect of location is the environmental location. There is increasing concern by urbanites over environmental location, because of the increasing pollution in the cities and towns. The increasing congestion on the road, unchecked construction works and industrial pollution has affected the quality of life for city dwellers. The established location is concerned with two aspects. Firstly, it is concerned with its actual establishment as a residential location with its own community and services, and secondly, it is also pertains to the reputation of such an established location.
- 10) According to Marbeck (1994), ideally your house should be in an area that has peace and quiet. It should be near your place of work (almost an impossible these days!), near schools, near a market and near shops. These days, the care for environment has attracted a lot of attention and so developers now pay great attention to greenery and landscaping. Besides, developer's previous experience in the housing business, financial backing and the reputation of delivering as promised are all very important questions in the light of how home buyers buy new residential properties in this country.
- 11) As advised by Consumers' Association of Penang (1986), while trying to get more details about a housing project, house buyers should ensure that the developer that they are dealing with is a genuine one.

- 12) A study by Hempel and Punj (1999) finds out that the dependent variable in the consumer model of homeownership is specified as being influenced by factors that can be grouped into three theoretical blocks: Buying Power, Housing Needs, and Purchase Orientation. Thus the consumer model of homeownership represents an individual household's perspective on its ability to afford a particular home, given their past situation, current circumstances, and expected changes in the above factors.
- 13) According to Marbeck (1994), people buy property for three basic reasons. The first is personal. They want to occupy it. They are tired of dancing to a landlord's tune. They want to be king of their own castle. The second reason for buying property is for investment. In this case property is purchased so that it will produce income in the form of rent which will be regular, and if all goes well it will rise and make up for inflation. The third reason for buying property is for speculation. In this case you are hopeful that the price of your purchase will rise rapidly so that you will gain from regular speculation. You want quick gains from your investment.
- 14) Abdullah (1996) states that there are effectively 3 types of purchasers in the real estate market: the Home Seeker, the Property Stag and the Investor. The home seeker refers to the person who purchases a condo to live in – it is a home. As for the property stag, the purchaser usually makes an appearance in a strong property market. He buys on the launch of the project and sells at a profit later. Unlike the stag, the investor thinks longer term. The aim is chiefly to obtain a superior return on investment in the property market via a combination of rental returns and capital appreciation. The above types of purchasers are not mutually exclusive - one purchaser can have the characteristic of all three.
- 15) In the study of customer orientation and buyer satisfaction for high-involvement product, namely, houses in Malaysia by Lee and Ng (1996), it

identifies seven factors that are expected to foster customer orientation among housing corporations. These are ability to fulfil buyer's needs, responsiveness, assistance to buyers on purchase, industry knowledge, the environment factor, after sales service and product quality. All these dimensions are importance in influencing buyer's satisfaction. This means emphasis should be placed on these dimensions so as to be customer-oriented. These factors are largely controllable by marketers and can be altered to adjust the extent of their adoption.

16)Marbeck (1994) reveals that the most common sources of property information are the advertisements in newspaper and magazines which attract consumer attention almost daily. There are also those that appear on television and radio, flyers, and even posted them to would be purchasers. Another source to look at would be the Classified Advertisements in newspaper.

17)Consumers' Association of Penang (1986) emphasizes that when buying a house, the first thing you will probably do is to look out for advertisements of houses for sales. When you are looking at the housing advertisements, be careful. For they do not always provide all the information that you need. Some of them may even be worded in such a way as to give you the wrong impression.

18)Littlefield, Bao, Cook (2000) has conducted a study on consumers' Internet use in their home purchases. Results show that fewer than 40 percent of the home purchasers ever used the Internet for real estate related information during their home purchases. Awareness of Internet real estate information, access to Internet, age, perceived effectiveness of Internet in home purchase, and satisfaction with Realtor are found to be important factors in determining consumer's use of Internet during home purchase.

19)As per the study conducted by Rohe and Stegman (1994), many of the

statistically significant variables, such as prior information, and the quality of information provided by a newspaper or a real estate agent, deal with the provision of information are a number of variables which are important in explaining a buyer's behaviour.

20)Hor (2001) advises home purchasers to make the right choice in home buying. Like many things in life, spending some time in preparation beforehand can save a lot of time later on. Resist the urge to rush out to look at houses before completing the research. Home purchaser should shop around for best financial arrangement to determine the budget they have, determine what they are looking for in a home (location, landed property or apartment-type units, accessibility to specific facilities, etc.) and so forth.

Nevertheless, no previous study has been noted in relation to the attractiveness of the advertisement features that might draw the attention of the potential buyers. The researcher has included it in the study as this information might be useful for developers in their advertising strategy.