Perceived Risk in a Strategic Household Purchase: Consumer Home Buying Behavior

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The purpose of this study is to develop and empirically test a conceptual model of a perceived risk for a prefabricated house purchase. The results of our quantitative study suggest that perceived risk as a multidimensional construct plays a less important role in the process of purchasing a prefabricated house; higher values have been assigned mostly to financial and delivery aspects of risk. According to our findings, important antecedents are subjective knowledge, situational involvement and perceived financial sacrifice, while among consequences perceived benefits and information search are of greater meaning.

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In the past few years, a criticism has been directed towards the consumer behavior research due to its neglect of consumer well-being and the lack of focus on difficulties consumers face when making buying decisions for a strategic product. Conchar et al. (2004) concluded that potential losses are the foremost concern in consumer decisions. Indeed, existing literature lacks empirical studies of consumer decision making for “strategic decisions” (Bazerman, 2001; Gronhaug, Kleppe, and Haukedal 1987). According to Wells (1993), investigating purchasing decisions that can change consumers’ lives, such as a house purchase, can make an essential contribution to consumer behavior knowledge. Strategic decisions incorporate a range of fields, including health decisions (Henry 2001), and financial investments (Henry 2005). Compared to buying convenience products consumers perceive these kinds of “large ticket” purchases as riskier, sometimes even traumatic (Mitchell, 1999; Bauer, 1960). Outcomes of such purchases are unknown in advance and some of them are likely to be unpleasant. The core construct in the decision making process is the “perceived risk” consumers experience (Cho and Lee, 2006; Dowling and Staelin, 1994; Ogletree and Monroe, 1994; Srinivasan and Ratchford, 1991). Hence, its role in strategic purchases requires attention from researchers.

In view of the dearth of literature exploring consumer decision making when purchasing high-involvement and emotionally charged products, the purpose of this research was twofold: a) to develop a conceptual model of a perceived risk for a prefabricated house purchase; b) to gain knowledge of factors impacting the decision-making process from the empirical standpoint. For several reasons the product selected in this study was a prefabricated house: it is a product you actually buy (almost in one piece); house is the most important durable good in the household and it requires high involvement as well as complex decision making. The strongest parallel can be made with a car purchase, and many studies of consumer decision making indicate there are similarities in the buying processes of different durable goods (Punj, 1987). Hence, the empirical literature in this area and the real estate literature provided a basis for this study.
After a thorough review of the existing empirical work, a conceptual model of perceived risk in case of a house purchase was developed. This model consists of three main groups of variables, the perceived risk, its antecedents and its consequences. It suggests that an individual’s prior experience (Srinivasan and Ratchford, 1991; Chaudhuri, 2001), subjective knowledge (Dowling and Staelin, 1994; Havlena, DeSarbo, 1991), situational involvement (Richins, Bloch and McQuarrie, 1992; Dholakia, 2001; Grewal, Mehta, Kardes, 2004), perceived financial sacrifice (Schmidt and Spreng, 1996; Dowling and Staelin, 1994; Agarwal and Teas, 2001) and intangibility (Laroche, Bergeron and Goutaland, 2001) of the product prior to its delivery would influence perceived risk. Furthermore, the perceived risk would affect an individual’s perceived benefits (Srinivasan and Ratchford, 1991; Dowling and Staelin, 1994), and information search (Dowling and Staelin, 1994; Beatty and Smith, 1987; Moore and Lehman, 1980).

Prior experience is defined as consumer’s experience with a prefabricated house prior to the purchase, e.g., helping friends with their house purchase. Subjective knowledge is consumer’s perception of house-related information held in his/her memory. Situational involvement is defined as an internal state, which describes consumer’s interest for a specific purchase situation. Perceived financial sacrifice refers to a consumer’s perception of sacrifice in case of a house purchase, including also the costs of the product. Perceived intangibility is presented as consumer’s unclear perception of a product, which means the consumer doesn’t have a mentally clear image of a house—especially when lacking experience. We have defined perceived risk as consumer’s pre-purchase risk perception in case of a house purchase. Information search is defined as the level of attention, perception and effort, aimed at getting external information regarding house buying. Perceived benefits are benefits of using a specific risk reduction strategy, such as searching information.

In empirical testing of the proposed conceptual model, a number of factors prompted us to utilize a combination of qualitative and quantitative research methods, i.e., in-depth personal interviews with consumers and a field survey. In Study 1, qualitative methodology provided a deeper understanding of consumer behavior and the complicated nature of the buying process, and offered useful directions for the Study 2 utilizing quantitative research. Six semi-structured in-depth interviews were carried out in participants’ households. Topics of discussion followed the established interviewing protocol. The analysis in Study 2 was conducted in two steps. We first performed a confirmatory factor analysis with LISREL to check validity and reliability of the measurement items. Next, we employed a full-information structural equation modeling with all the measurement items finalized.

For a better insight, we have also looked into average values of the individual constructs (ranging from one to seven): involvement, sacrifice, information search and benefits were above average, while experience, knowledge, intangibility, risk were below average. Focusing on the core model, the following structural paths were significant: experience decreases risk (-0.20); involvement increases risk (0.66; 0.94; 0.66); risk decreases benefits (-0.31). Contrary to our predictions, knowledge increases risk (0.36) and sacrifice decreases risk (-0.17). Intangibility does not seem to influence risk significantly, neither does risk significantly influence information search. Apart from testing these paths, we also identified several other empirically and theoretically well-supported paths: knowledge increases information search (0.27); involvement increases benefits (0.62); benefits increase search (0.71); involvement increases search (0.25); experience increases knowledge (0.55; 0.58; 0.34).

One of the major contributions of this study was an extensive review of the literature dealing with consumer decision making processes and behavior in relation to strategic purchases, as well as perceived risk. It has been revealed that perceived risk as a multidimensional construct plays a less important role in the process of purchasing a prefabricated house; higher values have been assigned mostly to financial and delivery aspects of risk. According to our findings, important antecedents are prior experience, subjective knowledge and situational involvement, while both consequences, perceived benefits and information search are meaningful.

References