A STUDY ON PERCEIVED RISK OF RESIDENTIAL CONSTRUCTION COMPANIES AND ITS CUSTOMERS

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ABSTRACT

The burst of real estates and its boom plays a massive role in the current economic scenario. Industries of real estate always face with the factor of perceived risk for both the companies and its customers. The perceived risk of the promoters of residents and also its customers are being discussed in the present study. Data was collected from Chennai, through a questionnaire. Questionnaire was given to 50 residential companies and 50 customers. The perceived risk of both the companies and also the customers was identified through Random sampling technique. While considering the promoter's perceived risk, major risks were political risk and technological risk. From the customer's point view, the major risks were unfavorable factors, dishonest developers and Estate security.

Keywords: Perceived risk, Risk, Real estate risk.

INTRODUCTION:

Uncertainties and perceived risks are quite common in every field of projects for development. This especially occurs in the field of project for real estate development. The influence of risks can be seen in every stage of the project, starting from conceptualization of the project, continued through feasibility analysis, planning and designing, bidding and tender, execution of plan, construction of building and finally ends with the handover of projects.

Various factors are responsible for risk to be caused in the real estate business. These factors are named by Gehner, et al. (2006), Clarke (1999) and Morrison (2007) as "STEEP" (Social, Technological, Economic, Environmental and Political). The real estate business is faced with perceived risks regarding difference in design and its construction, no integration, lack of effective communication, ambiguity, environmental change, changes in inflation and also in deflation and increasing competition in the local markets. A very careful consideration of STEEP factor's risk and its outcome should be made, as these risks may cause an influence on the project's development, such as, delay, extended cost and excessive usage of resources. This ultimately will lead to a very big loss to the construction company by way of loss of income.

Several types of risks have been identified by the researchers and in case of perceived risk, it is considered to be as multi-dimensional. Jacoby & Kaplan (1972) anticipated a broadly acknowledged classification of types of risk. They include performance, financial, psychological social and physical. In several studies, convenience/time risk as proposed by Roselius (1971) and the five risks mentioned above have been regarded as operational definition.

REVIEW OF LITERATURE:

E.G. Keh & Sun (2008) and Yu¨Ksel & Yu¨Ksel (2007) had reported that though in western and eastern countries many forms of perceived risks are adversely connected with satisfaction, there are a few types of perceived risks that are positively linked with the satisfaction of Chinese customers. These risks may include psychological and social risks. The authors had also stated that the customer satisfaction gets affected by perceived risks through perceived value. An expectation also has also got an impact on satisfaction. Roselius (1971) had said that the customers seem to decrease their extent of expectations due to the fear of perceived risks. This intention will ensure reduced post purchase dissatisfaction on the part of customers. But it could also be noted that the expectations of residential buyers are decided by their needs of investing in homes or for residing apart from satisfaction purpose as reported by Ga¨Rling & Friman (2002).

Bauer in 1960 proposed the concept of perceives risks initially specified that the behavior of consumer is an activity of risk taking. Such an activity of the consumers may lead to some unexpected and repulsive results. Additionally he also reported that it is not the objective risk, but the perceived risk which has an influence on the decisions of the consumers. Cunningham in 1967 stated that the concept of perceived risk can be considered and arises as a result of the role of two elements which are significance given to loss and probability.

According to E.G. Assael (1998) the purchase of a house is considered to be as a consumption which is very risky. The main reason for the indecisive perception on the part of the purchasers of house is the unhealthy reputation and bad opinions about the sector of real estates. A high extent of financial risk is involved in home purchase, thigh it may be for investment purpose or for residing. Additionally, there are also chances of fear regarding physical loss due to the surrounding features of a house. For instance, gated communities are chosen by most of the people in UK, because of the increased rate of crimes happening in and around the houses (Atkinson & Flint, 2004). Savage et al., (2005) said that house purchase is considered to be an identifying fact of who a person is. Marcus (1995) further said that purchase of house is a consumption pattern through which a person can express his content. Hence it could be rightly said that the purchase of a house is consists of social and psychological risks. Home purchase also is inclusive of time and convenience risk. This is so because; every stage in home purchase involves high costs. It may be monitory cost or cost of effort and time and sometimes (Bishop, 2004).

The current method of "risk matrix" is by far accepted by all the developers of real estate's to be the tool of practical risk assessment for assessing the results that arise due to the risk factor. Younes, Et Al

(2007) made the analysis of investing in hotels for proving the aptitude level of the risk matrix, which is also popularly acknowledgeable in the sector of real estate. The data was collected through panel discussion and method of ranking for the purpose of matrix calculation. The data so assessed by matrix does not help the real estate developers to frame and modify their decisions. The findings also depicts that the factors of risk are lot more, in particular in the field of huge projects of real estate.

NEED OF THE STUDY:

In the current economic scenario, perceived riks are being faced by both the customers and the construction company. Hence an attempt has been made in the present article to identify those perceived risks involved in the business.

STATEMENT OF THE PROBLEM:

An influence is being made by perceived risks on the satisfaction of the customers and also of the company. Ongoing through this article, the readers may come across the various types of perceived risks involved in the real estate sector.

OBJECTIVES:

- ❖ To examine the perceived risks of residential promoters
- ❖ To assess the perceived risks of residential purchaser

RESEARCH METHODS:

The research needed for the study was actually conducted among two groups, customers and residential promoters. Simple random sampling was done to select the sample. For the purpose of testing the hypothesis, questionnaires were distributed. 50 promoters and 50 customers were given the questionnaires. Scales based on five points which ranged from strongly agree (5) to strongly disagree (1) were engaged for the purpose of the study. The area of research was Chennai.

Perceived risk of customers:
Integrated interviews for the research and earlier studies, physical, performance and financial risks as reported by Jacoby & Kaplan, 1972) and the time/convenience risk as suggested by Roselius, 1971 was also applied in this paper. Without separating the consequences and probabilities, 13 items were framed to assess the perceived risks in housing. The same was done earlier by many researchers (e.g. Jacoby & Kaplan, 1972).

Perceived risk of promoters:
The questionnaires included 5 key risk criteria like environmental risk, social risk, economic risk, political risk and technological risk, named as suggested by Jacoby & Kaplan, 1972.

Reliability Statistics

	Cronbach's Alpha	No of Items
Promoter scale	.647	5
Customer scale	.887	13

As per this study, the promoter's scale revealed the reliability value of Cronbach's Alpha as 0.647 and they were all greater than 0.6. Therefore adequate reliability was seen to be constructed in vase of perceived risk. When the customer's scale was considered, the same adequate reliability was revealed as per the Cronbach's Alpha value, which was 0.887and it was also all greater than 0.6. In short, the study says that promoter's scale has 65% reliability and the customer's scale revealed the reliability of 89%.

ANALYSIS AND INTERPRETATION

Communalities
Promoter perceived risk

	Initial	**Extraction**
Social Risk	1.000	.800
Technological Risk	1.000	.757
Environmental Risk	1.000	.727
Economical Risk	1.000	.613
Political Risk	1.000	.768

Extraction Method: Principal Component Analysis.

It is clear from the above table that the amount of variance, accounted by one factor, is different for every variable.

Rotated Component Matrix (a)
Promoter perceived risk

	Component		
	1	**2**	**3**
Political Risk	.817		
Technological Risk	.796		
Environmental Risk		.837	
Economical Risk		.644	
Social Risk			.894

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a) Rotation converged in 5 iterations.

The aforesaid table depicts the factor analysis by utilizing the extraction method (principal component analysis) and also the varimax rotation along with Kaiser Normalization. the extraction of factors whose value was more than 0.6 was done. This method is considered as the best and effective way to get the factor structure which is more stable. Satisfactory loading of all the 5 variables were seen. This loading of variables was made on the latent factors (3). In addition to this, factor analysis was also performed in the study.

Communalities (customer)
Communalities indicate the amount of variance in each variable that is accounted for.
Customer perceived risk

	Initial	**Extraction**
Quality flaws	1.000	.822
Unfavorable factors	1.000	.932
Management service	1.000	.683
Environment decline	1.000	.911
Price fall	1.000	.865
Price might rise	1.000	.859
Dishonest developers	1.000	.859
Overload due	1.000	.849

	Initial	**Extraction**
No safe	1.000	.739
Estate security	1.000	.828
Physical harm	1.000	.831
Waste of time	1.000	.892
Due to developer's cheating	1.000	.829

Extraction Method: Principal Component Analysis.

It is clear from the cbove table that the amount of variance is different for each variable, as accounted by both the factors.

Rotated Component Matrix(a) (customer)
Customer perceived risk

	Component				
	1	**2**	**3**	**4**	**5**
Unfavorable factors	.951				
Dishonest developers	.922				
Estate security	.895				
Price might rise		.920			
Quality flaws		.886			
No safe		.846			
Physical harm			.888		
Overload due			.884		
Management service			.801		
Environment decline				.949	
Waste of time				.933	
Price fall					.915
Due to developer's cheating					.893

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a Rotation converged in 5 iterations.

The assessment of data so collected was done using the rotation technique (Varimax) and the method of extraction (principal component analysis) and Eigen values greater than one emerged. Every factor whose value was more than 0.7 was extracted. as stated by Sethi & king, 1991; Rai et al., 1996, this process of extraction is very convenient to obtain a factor structure which is more stable. All the variables (13) were seen to be loaded very satisfactorily. The factors got loaded into the latent factors (5) after the completion of 5 processes of iteration. For analyzing and making sure of the suitable levels of the variable communality, factor analysis was also performed.

FINDINGS AND CONCLUSION:

While considering the promoter's perceived risk, major risks were political risk and technological risk. From the customer's point view, the major risks were unfavorable factors, dishonest developers and Estate security.

Data regarding perceived risk were collected both from company and customer, as the main aim of the article is to convey the various perceived risk that the customer and company face. Careful study and analysis were carried out in this study. Considering the time constraint, research was done on the data collected from 50 companies and 50 customers alone. Due to this factor detailed study on perceived risk was not possible.

SCOPE FOR FURTHER RESEARCH:

The findings of the study done by the scholar are realistic. But it is a drawback of the study that the analysis would have been more appropriate if it had been carried on taking into consideration several combinations of weights, measures and factors. Hence it is suggested to scholars who wish to take up research on perceived risk, this topic is advisable. Apart from all the factors considered in this article certain other factors, for example, a study of perceived risk on agencies can be done.

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