First-home buyers and herding behavior in Surabaya, Indonesia

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Abstract

Purpose – This study aims to determine the causality of herding which was traced down to social and normative influences from first-home buyers represented by undergraduate students.

Design/methodology/approach – The Perception Alignment Hypothesis was used in this experimental research, and was conducted on a sample of 125 undergraduates studying finance representing first-home buyers. The experiment provides the subjects property brochures in Surabaya to appraise a value that they see fit for purchase. The subjects were given both social- and normative-induced treatments separately using information cascade, and their valuation shifts were recorded. Their valuations were then divided into three sections under the treatment groups, consisting of initial, “social” and “normative” valuations.

Findings – In contrast to previous findings, the results showed that first-home buyers succumbed to both social and normative influences, causing them to herd. Further analysis of the credibility of information was conducted and it showed that the undergraduates were only prone to social influence, whereas other aspects regarding normative influences must be further researched.

Practical implications – The decline of homeownership on a global scale is concerning, especially when 60% of the market represents young adults under the age of 35. This implies that both the government and property developers may need to enact strict measures to regulate property purchases.

Originality/value – This is the first experimental study on herding of Surabaya, Indonesia, mainly focusing on human behavior and information cascade. Thus, this study could be a viable reflection to future policies in Indonesia being made to answer actual demands in the residential market.

Keywords Herding, Behaviour, Social influence, First-home buyers, Information cascade, Normative influence

Paper type Research paper

Introduction

The act of copying one person’s action has been an effective way of learning, such as the event when a baby copies her mother’s expression for the first time (Seiler et al., 2014). Such a term was named herding, and its definition is how individuals in a group can act collectively without centralized direction. Smith (1790) described how humans have the tendencies to follow one another for a specific purpose, regardless of the cause. Furthermore, herding has been a topic that attracts researchers studying the financial crisis, some even described herding as one of the possible aspects that caused the financial crisis (Szyszka, 2010). Lan (2014) finds that Chinese residential housing markets tend to herd before a financial crisis. Within the period of the post-financial crisis, there have been countless researchers trying to find a way to better the traditional methods in predicting market fluctuations (Wang, 2013).