

# THE SERVICE IMPERATIVE IN HOMEBUILDING

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## ABSTRACT

Builders sold a record 1.2 million new homes in 2004 at an average price of \$274,500. Ten builders appear on the latest Fortune 500 list and four of them show upwards of \$10 billion in revenues. Americans are buying houses faster than they normally do for fear that fixed mortgage rates may rise sharply. They may also be doing so thinking that real estate is a better investment than stocks or bonds. But, a quick examination of newspapers from Arizona, Florida, Georgia, Nevada and several other states reveals a disconcerting level of complaints and lawsuits from new homeowners who were unable to resolve construction defect problems with their builders (see tabulation of a few article titles, published during 2001-2005, in Appendix 1). A Consumer Report (CR) investigation published last year found that some new homes had serious defects, and it stated that buyers, 'have more consumer protections for a fickle \$ 20 toaster than for a flawed investment-of-a-lifetime.'<sup>i</sup>

Yet, customer satisfaction surveys from research firm J.D.Power show steady improvement in buyer satisfaction in major new home markets.<sup>ii</sup> Power, which entered the new home market in 1997, is better known for its research on automobile quality. Builders support their product with a warranty service, discussed later in the paper. The newspaper articles cited above focus on defects in new homes and discuss them in some detail. The support service for the product has received scant coverage. Given the size and importance of the U.S. Homebuilding industry (HBI) it is surprising that objective research by management scholars is hard to find. In this paper we aim to examine the relative role of customer service in abating the tide of complaints and address the following questions: 1. Do a builder's upstream activities affect customer service? 2. Does it matter who performs the customer service activities? And, 3. Are there gaps in managerial action specifically between construction and customer service?

This paper is a part of an ongoing research since 1997. Homebuyer surveys have been augmented by case study and action research. Secondary HBI data from Arizona, Florida and N. Carolina have been analyzed to achieve data and methodological triangulation. The paper identifies weak links in the builder activity system and makes recommendations to fortify them.

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<sup>i</sup> "Housewrecked", CONSUMER REPORT January 2004.

<sup>ii</sup> J.D.Power Press Release September 14, 2005.