A Social Perception View of Business Relationships in the Service Sector

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EXTENDED ABSTRACT - Current theories of business relationships, for example the buyer-seller relationship model (Dwyer, Schurr, and Oh 1987), characterize these relationships in terms of characteristics such as trust, commitment, mutuality, flexibility, information exchange, etc. Differences in these characteristics within a dyad, for example two parties being unequally committed to the relationship, are then thought of as providing the basis for opportunism, power differences, and the incentive to employ safeguarding mechanisms. It is implicitly assumed that even though parties do not necessarily display the same levels of relational characteristics, they know the true level of relational characteristics of the counterpart. In other words, the parties involved are accurate in their perception of the other party's level of commitment, trust, information exchange, etc. But is this assumption justified? Social psychology has produced powerful demonstrations of how inaccurate people are in their perceptions, leading to poor forecasting of the behavior of others.

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EXTENDED ABSTRACT

Current theories of business relationships—for example the buyer-seller relationship model (Dwyer, Schurr, and Oh 1987)—characterize these relationships in terms of characteristics such as trust, commitment, mutuality, flexibility, information exchange etc. Differences in these characteristics within a dyad, for example two parties being unequally committed to the relationship, are then thought of as providing the basis for opportunism, power differences, and the incentive to employ safeguarding mechanisms. It is implicitly assumed that even though parties do not necessarily display the same levels of relational characteristics, they know the true level of relational characteristics of the counterpart. In other words, the parties involved are accurate in their perception of the other party’s level of commitment, trust, information exchange, etc. But is this assumption justified? Social psychology has produced powerful demonstrations of how inaccurate people are in their perceptions, leading to poor forecasting of the behavior of others.

In this paper we investigate the effects of perceptual (in)accuracy in dyadic business relationships. Drawing from social perception theory, we propose that business partners a) do not necessarily accurately perceive their counterpart, and that parties b) personify their counterpart. Personification means they form the counterpart’s image as if it were a person, not an organization. In other words, the other party (organization) is described in terms of personality traits such as “reasonable,” “trustworthy,” “forgiving,” “consistent,” or “flexible.” The level of perceptual accuracy then influences how favorable the counterpart’s image will be, and how much goal congruence will be experienced with the counterpart. Perceptual accuracy influences the counterpart’s image and goal congruence through two psychological mechanisms: surprises (positive and negative), and self-fulfilling prophecies (positive and negative).

We will start with the easy case, that is party A is accurate in the perception of party B. In other words, party A correctly perceives party B as—for example—highly committed. This will lead A to form a positive image of B and to experience a high degree of goal congruence with B. Alternatively, party A may perceive party B correctly as little committed. This will certainly have negative consequences, leading A to form a less favorable (negative) image of B and to experience less goal congruence. What about when A is inaccurate in its perception of B?

Again, there are two ways that A can perceive B’s commitment level inaccurately. First, A thinks B is highly committed when B is not: A is overly optimistic. In this case, A will on the one hand often be negatively surprised by B because B does not live up to A’s expectations. On the other hand, the self-fulfilling prophecy mechanism causes A to behave in ways that induce expectation confirming behavior on B’s part, that is low commitment behavior. What will be the effect on the image A forms about B? Again, since negative information is weighted heavier than positive information, the negative consequences of the self-fulfilling prophecy mechanism are likely to outweigh the positive surprises. Hence, in the case A is overly optimistic, A is likely to form a negative image of B and to experience little goal congruence with B.

Alternatively, A thinks B is not committed when B is highly committed: A is overly pessimistic. In this case, A will on the one hand often be positively surprised by B because B often exceeds A’s expectations. On the other hand, the self-fulfilling prophecy mechanism causes A to behave in ways that induce expectation confirming behavior on B’s part, that is low commitment behavior. What will be the effect on the image A forms about B? Again, since negative information is weighted heavier than positive information, the negative consequences of the self-fulfilling prophecy mechanism are likely to outweigh the positive surprises. Hence, in the case A is overly pessimistic, A is likely to form a negative image of B and to experience little goal congruence with B.

Concluding, regardless in which direction A is inaccurate in its perceptions of B, this inaccuracy has negative effects on the image A forms about B and the goal congruence A experiences with B. In contrast, an accurate perception of the counterpart improves the image and experienced goal congruence, unless one party perceives the other party correctly as low in commitment, investment in the relationship etc. Perceptual accuracy of course regards all aspects of a relationship, not only commitment, but also trust, mutuality, etc.

In turn, the image a party holds about the counterpart, and the goal congruence experienced with the counterpart, act like a frame for subsequent behavior. That is, if one holds a positive image of the counterpart and experiences a high degree of goal congruence, little conflict will arise and the relationship will prove economically rewarding. If in contrast, one holds a negative image of the counterpart and little goal congruence is experienced, conflict is preprogrammed and the relationship is not profitable.

We test this social perception view of business relationships in the insurance sector, using dyadic data from 242 pairs of independent insurance agents and their underwriters. A non-recursive system of equations is estimated using seemingly unrelated regression estimation. The results indicate that inaccurate perception of the counterpart can indeed damage the relationship by decreasing the sense of goal congruence experienced and by creating a negative persona of the counterpart. These factors in turn increase conflict and lower the profits of either side of the dyad. Thus, insurers and agents alike benefit from realistic assessments of each other’s relational behaviors and intentions: perceptual accuracy is rewarded in the marketplace.

References
