Culture, Relationship Norms, and Perceived Fairness of Asymmetric Pricing

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We examine cultural differences in the endorsement of dual entitlement, which provides one rationale for asymmetric pricing. We find that eastern (western) consumers guided by communal (exchange) norms judge asymmetric pricing as unfair (fair), but such differences disappear in separate evaluations or when an other (vs. self) perspective is primed.

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EXTENDED ABSTRACT

According to the principle of dual entitlement (DE), buyers are entitled to a reference price and sellers are entitled to a reference profit. In a series of studies, Kahneman et al. (1986a 1986b) provide evidence that consumers deem it fair for a seller to 1) increase its price when its costs increase (to protect its reference profit), and 2) maintain its price when its costs decrease (because doing so does not violate the buyer’s entitlement to a reference price). This pioneering work naturally begs the question: To what extent is DE a global standard of fairness?

Although such a question is not readily answered in one research endeavor, prior research has tended to conclude that DE is relatively robust across consumers (e.g., Frey and Pommerrenge 1993, Shiller, Boycko, and Borokov 1991, Bian and Keller 1999, Gao 2009, Urbaney et al. 1989). Some intriguing differences have emerged in within-subject testing of DE (Kalaparakal et al. 1991) and in across-country testing (e.g., Kimes and Wirtz 2003, Gao 2009). However, the latter has produced mixed evidence by relying upon direct cross-country comparisons that are confounded and do not readily allow conclusions regarding cultural differences (nor psychological mechanism).

The present research addresses this issue by priming culture (and corresponding relationship norms) in order to investigate the effects on consumer fairness response within a DE context.

Cultural differences in social relationships and self-definitions, such as independence/interdependence, are one of the myriad dimensions along which cultures vary (e.g., Hofstede 1980; Markus and Kitayama 1991). Although not without its critics (e.g., Brewer and Chen 2007; Oyserman, Coon, and Kemmelmeier 2002; Shavitt et al. 2006), the distinction between independent and interdependent has received robust support, and has been linked to relationship norms that are exchange- and communal-oriented, respectively (Kim et al. 1995; Triandis 1996, 2001a, 2001b). Indeed, Triandis (1995) argues that an emphasis on communal versus exchange relationships is one of the key defining attributes of interdependence and independence. Communal norms emphasize taking others’ welfare and interests into account whereas exchange norms endorse the seeking of benefits in the pursuit of self-interest—and these social norms may serve as the standard by which behavior is judged (e.g., Clark and Mills 1993, 1979; Mills and Clark 1982)

Within a DE context, what are the implications of salient norms driven by culture for fairness response? Consider first the case of asymmetric pricing. Asymmetric pricing appears inconsistent with the communal norms of interdependent consumers. The firm passes on cost increases but does not pass on costs decreases to customers—suggesting that the firm is not emphasizing the welfare and interests of its customers, a violation of communal norms salient among interdependent consumers. In contrast, when practicing asymmetric pricing the firm is acting in a manner consistent with pursuit of the firm’s self-interest—and independent consumers guided by exchange norms should be relatively more accepting of such behavior. Accordingly,

Hypothesis 1: Interdependent (independent) consumers will a) be guided by communal (exchange) norms and b) judge asymmetric pricing as relatively unfair (fair).

When considering the two components of asymmetric pricing separately, however, it becomes relatively difficult to judge whether firm’s pricing actions are consistent with social norms. Put simply, when consumers know either the give or the take but do not know the give-and-take in the relationship, as when considering each pricing action separately, cultural differences in fairness response arising from social norms are not expected to emerge as strongly. Formally:

Hypothesis 2: Price fairness response for cost-increase and cost-decrease pricing actions (compared to asymmetric pricing) will be relatively insensitive to cultural differences and corresponding communal/exchange norms.

H1 and H2 together predict an interaction of culture and pricing and mediation by relationship norms (communal/exchange) that are salient as a function of culture.

A series of experiments investigate the impact of culture and corresponding relationship norms on price fairness. In each study, culture/norms are primed using established techniques. Participants rate price fairness after reading a scenario (adapted from Kahneman et al. 1986a, 1986b) in which a firm i) increases prices to cover cost increases (cost-increase); ii) maintains prices when costs decrease (cost-decrease); or iii) practices both (i.e., asymmetric pricing).

To briefly summarize findings: In Study 1, priming Chinese (vs. American) culture among bi-cultural Singaporean participants (Chen et al. 2005) reduces price fairness perceptions for asymmetric pricing (but not cost-increase and cost-decrease pricing), an effect that is mediated by relationship norms. To provide additional evidence for the underlying process, Studies 2 and 3 examine the role of norms more directly (Spencer et al. 2005). Priming communal (vs. exchange) norms (Aggarwal and Law 2005) or manipulating norms through the use of different industries mimics the effects of priming culture: It reduces price fairness perceptions for asymmetric pricing (but not cost-increase and cost-decrease pricing). Finally, study 4 focuses on asymmetric pricing and manipulates perspective taking (Galinsky, Wang, and Ku 2008) as well as culture. Adopting an other (vs. self) perspective increases perceived fairness among bi-cultural Singaporean participants primed with the Chinese culture, but perspective does not affect fairness perceptions when the U.S. culture is primed. That is, when communal (but not exchange) norms are primed via culture, adopting an other versus self perspective shifts emphasis to the needs of others (i.e., the firm).

In summary, our research provides converging evidence that culture makes salient relationship norms that guide consumer fairness perceptions of firms’ pricing actions, especially asymmetric pricing. Our contributions are three-fold. First, we add to the emerging literature on cultural differences in price fairness (e.g., Bolton et al. 2010) by examining the role of culture and corresponding relationship norms, thereby answering Xia et al.’s (2005) call for research on the role of social norms in price fairness. Second, we examine the robustness of the pioneering work on DE in two ways: by comparing consumer fairness perceptions of pricing actions based on DE (i) between joint and separate evaluations, and (ii) across culture and corresponding salient relationship norms. Third, we shed light on the ‘economics puzzle’ of asymmetric pricing (cf. Peltzman 2000) from the perspective of consumer fairness perceptions.
REFERENCES


