Trivializing Compensation and Muddy Linings: When Firm Expenditures to Acknowledge Backfire
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This research suggests that getting something may not always be better than nothing. Specifically, receiving a smaller-than-expected material benefit with a verbal acknowledgment can create a lower sense of appreciation and satisfaction than receiving a verbal acknowledgment alone: a curious effect we refer to as the “trivialization effect.”

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EXTENDED ABSTRACT
Feeling appreciated is a fundamental component of satisfaction (Reis et al. 2000), which is linked to long-term relationship commitment in marketing channel relationships (Geyens, Steenkamp, and Kumar 1999). Recognizing the importance of this connection, firms use a variety of strategies to show appreciation for their customers and employees, whether to express thanks for efforts that benefit the firm or to express apologies when the firm harms them.

One popular strategy to compensate customers and employees for effort or loss is to offer an acknowledgment with a small material benefit added. Real-life examples of this strategy abound. Yet virtually no academic research has explored the cases under which these costs are warranted, or determined if they can be counterproductive in communicating appreciation for an individual’s expenditure or loss. Across six studies, our research seeks to fill this gap.

We propose the construct of “trivializing compensation,” whereby an acknowledgment with a small material benefit attached can make recipients feel less appreciated than the identical acknowledgment alone. We suggest that this “trivialization effect” occurs because attaching a small material benefit to an acknowledgment prompts recipients to evaluate it by comparing it to a reference point based upon how much material benefit they expect to receive (Adaval and Wyer 2011; Anderson and Coughlan 2002; Epley and Gilovich 2010). A material benefit that does not meet expectations then feels dissatisfying (Oliver 1977; Weaver and Brickman 1974).

Importantly, although no material compensation is technically farther from the expected-compensation reference point, we suggest that an acknowledgment (with no material compensation attached) is less likely to trigger comparisons to an expected benefit for a variety of potential reasons. One potential reason is that an acknowledgment alone does not imply a particular valuation of one’s time whereas adding material compensation does, triggering recipients to consider whether the compensation implies a (insultingly) low valuation of one’s time.

Studies 1a, 1b, and 2 demonstrated that this compensation that falls short of expectations leads to a less positive response than zero compensation. In study 1a, participants who imagined being loyal and supportive customers of a store and receiving a thank-you email with a 5% discount coupon attached (a 5% discount was pre-tested to fall short of expectations) felt significantly less appreciated than participants who imagined receiving a thank-you email alone. Study 1b replicated this finding in an employment context; participants who imagined going above-and-beyond to help co-workers and receiving a thank-you note with a $20 gift card attached (a $20 gift card was pre-tested to fall short of expectations) felt less appreciated than if they imagined receiving the identical thank-you note without any gift card attached. Finally, study 2 replicated study 1b’s finding with a non-monetary material benefit of a box of chocolates, indicating that both monetary and non-monetary material compensation can feel trivializing.

In study 3, we further tested the role of expectations in causing trivialization by manipulating the relationship of a material benefit amount to expectations, such that amounts fell short, met, and exceeded expectations. We found that the trivialization effect occurred when compensation amounts fell short of expectations, but not when they met or exceeded expectations.

In study 4, we found that the trivialization effect occurs in separate evaluation mode but reverses in joint evaluation mode (Hsee 1996). When participants were in a joint evaluation mode and were given the option of either zero or trivial compensation, they believed they would feel more appreciated if they received trivial (vs. no) compensation. We suggest that this reversal of the trivialization effect occurs in joint evaluation because recipients compare trivial compensation to zero compensation rather than to expected compensation. Importantly, this finding may explain managerial error: firm managers are often in a joint evaluation mode (Weaver, Garcia, and Schwarz 2012) and may neglect to recognize that for the recipient of a small material benefit, the option of receiving no material benefit is not generally a salient reference point.

Finally, study 5 demonstrated that when a small material amount feels trivializing, the silver lining effect (Thaler 1985) derived from prospect theory (Kahneman and Tversky 1979) reverses. The silver lining effect states that people prefer to segregate small material gains from larger material losses (e.g., preferring $10 off a $1000 bill—a segregated outcome—to a $990 bill—an integrated outcome). However, we demonstrate that when a small material gain feels trivializing (i.e., a $10 discount is smaller-than-expected), people are more satisfied with an integrated rather than segregated outcome because smaller-than-expected gains provide a trivializing “muddy lining” rather than a silver lining.

Thus, six studies demonstrate that smaller-than-expected material benefits are experienced as “trivializing compensation”—a new, useful construct for both managerial practice and theory. This effect holds in separate evaluation but is reversed in joint evaluation, which may account for the prevalence of the use of “trivializing compensation.” Finally, connecting to prior theory (Thaler 1985), trivializing compensation may lead to a muddy, rather than silver, lining effect.

Our work offers an important theoretical contribution by identifying factors that can lead a positive monetary amount—typically coded as a gain—to be coded as a loss. Our work also raises several important considerations for managers. First, managers should not underestimate the value of a simple acknowledgment. Second, managers should conduct research to understand individuals’ compensation expectations for effort expenditures or in response to losses; only compensation that exceeds expectations should be used, to avoid offering “trivializing compensation.” Third, if a firm desires to offer small compensation amounts, it should consider crafting communications that prompt recipients to adopt a joint evaluation mode (e.g., through lotteries that offer a small probability of receiving no material compensation and a large probability of receiving a small material compensation amount).

REFERENCES


