No Harm, No Foul: the Role of Inferred Harm in Perceptions of Price Fairness Under Price Maintenance

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Consumers’ inferences of impact on consumer welfare are shown to affect perceptions of price unfairness. We find that price maintenance when costs decrease – which prior work has suggested is perceived as fair – is seen as less fair when a lack of access to the product is thought to harm consumers.

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Consumer Perceptions of Unfairness and Greed  
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Hypothesis 1: With a justification, price increases will be judged less fair for high-power versus low-power firms.

**Paper #1: Firm Power, Power Distance Belief, and Consumer Price Fairness Perceptions**  
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**Paper #2: No Harm, No Foul: The Role of Inferred Harm in Perceptions of Price Fairness Under Price Maintenance**  
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**Paper #3: The Role of Interpersonal Attachment Anxiety and Security on Consumer Responses to Customized Pricing**  
Meredith E. Davud, Baylor University, USA  
William O. Bearden, University of South Carolina, USA  
Kelly L. Haws, Vanderbilt University, USA

**Paper #4: Perception of Environmentally-Friendly Efforts as Green or Greed**  
Aradhna Krishna, University of Michigan, USA  
Brent McFerran, University of Michigan, USA  
Wenbo Wang, Hong Kong University of Science and Technology, Hong Kong

**SESSION OVERVIEW**

Price and image: two critical marketing issues. This session presents four papers that each address important questions about how aspects of prices influence consumers’ perceptions of the price setter. Prices serve as an important signal in the market, allowing consumers to make inferences about the appropriateness of firms’ actions and motives. The objective of this session is to provide conceptual and empirical evidence of several interesting factors that influence inferences consumers make. In this session, we investigate consumer inferences related to price information, specifically examining negative inferences of firm unfairness and greed.

The first two papers both suggest more nuanced conceptualizations of the principal of dual entitlement for price unfairness (Kahneman, Knetsch & Thaler 1986a,b). Lu and colleagues provide evidence that a consumer’s response to a price increase is influenced by firm power and by the consumer’s power distance belief. These factors influence the extent to which a price increase leads the consumer to infer that the firm is attempting to take advantage of consumers.

In the second paper, Campbell and Carter start by examining price maintenance following a cost decrease. They show that consumers perceive the fairness of price maintenance to be influenced by perceived impact on consumer welfare. When a consumer perceives that product affordability is important to consumer welfare, price maintenance can be perceived as unfair. They further show, however, that the concern for consumer welfare is tempered by concern for firm reference profit. A price that is inferred to harm consumers is perceived as unfair unless it is necessary to maintain the firm’s profit. They extend these findings to disadvantageous differential pricing.

In the third paper, David, Bearden, and Haws ask how consumers are likely to respond to customized prices and when such prices may lead to perceptions of unfairness. Three studies provide evidence that a consumer’s attachment style moderates the impact of customized prices on perceptions of fairness and thus, satisfaction. Anxiously-attached consumers perceive customized prices (as compared to non-customized or group-level prices) as unfair, even when they themselves are advantaged by the customized offer.

The fourth paper extends beyond perceptions of unfairness to perceptions of greed. Krishna, McFerran and Wan examine whether a firm’s price image influences the interpretation of a firm action. Both lab and field experiments demonstrate that a firm that typically charges low (versus high) prices is more likely to be perceived to have negative motives for the same activity; specifically low price firms are more likely to be seen as motivated by “greed” than a desire to be “green.” Interestingly, a firm with an image for charging high prices appears to be buffered against inferences of negative motives, and thus, perceptions of greed.

Greater understanding of factors leading to negative firm perceptions is of great practical and theoretical importance. We know from past research that such perceptions can negatively impact firm success. Each paper in this session asks how and when price actions lead to negative consumer inferences and thus, perceptions of unfairness and greed.

**Firm Power, Power Distance Belief, and Consumer Price Fairness Perceptions**

How do consumers assess fairness of a price increase? Pioneering work on the principle of dual entitlement (Kahneman, Knetsch, and Thaler 1986a,b) proposes that fairness perceptions are governed by i) a firm’s entitlement to a reference profit and ii) consumers’ entitlement to a reference price. Accordingly, consumers judge it fair for a firm to raise its price when justified by a reason such as cost increase (because firms are entitled to a reference profit) but unfair to take advantage of demand (because consumers are entitled to a reference price).

A natural question arises regarding the impact of firm power on consumer price fairness perceptions. Previous research has examined various factors that influence price fairness (Bolton, Warlop, and Alba 2003; Haws and Bearden 2006). Likewise, research has examined various ways in which consumer power influences behavior (Rucker, Galinsky, and Dubois 2012). Notably, price fairness varies by power when consumers respond to self versus other price comparisons (Jin, He, and Zhang 2014). To our knowledge, however, research has not investigated the impact of firm power on price fairness.

Kahneman et al. (1986a) demonstrated that consumers judge it unfair for firms to exploit monopoly power. If so, then consumers may respond negatively to higher-power firms, regardless of pricing behavior. However, we propose a more nuanced response whereby consumers are especially sensitive to firm power when firms provide justifications for price increases. Because power confers more resources and alternatives (Galinsky et al. 2008), consumers will be less accepting of a higher power firm’s justification for a price increase. The high-power firm will be seen as exploiting consumers whereas the low-power firm will be seen as more entitled to the price increase. In contrast, unjustified price increases will make exploitation and lack of entitlement salient regardless of firm power.

**Hypothesis 1**  
With a justification, price increases will be judged less fair for high-power versus low-power firms.
er firms. When unjustified, price increases will be judged unfair regardless of firm power.

**Hypothesis 2** Perceived exploitation and entitlement will play a mediating role.

Our research also explores cultural differences in price fairness perceptions. Prior research has examined the role of independence/interdependence in across-customer price comparisons (Bolton, Keh, and Alba 2010). Our research focuses on power distance belief (PDB): people with high PDB tend to accept and expect power disparity more so than people with low PDB (Hofstede 2001). We propose that PDB will moderate the impact of power; that is, consumers with higher PDB will be more sensitive to power differences and therefore more likely to respond differentially to pricing behaviors as a function of firm power.

**Hypothesis 3** The impact of firm power on price fairness perceptions (i.e., \(H_p\)) will be more likely to emerge for high- (vs. low-) PDB consumers.

A series of studies investigate how consumers respond to price increases as a function of firm power and PDB. Studies 1-2 investigate firm power and include both un/justified price increases; studies 3-4 focus on cost justifications and assess PDB. To briefly summarize:

- **Study 1** was a 3 (firm power: high, low, unspecified) x 2 (justification: cost, demand) design. The scenario was adapted from Kahneman et al. (1986a, p.729) and described a store raising the price of shovels due to a snowstorm (demand) versus wholesale costs (cost). Power was manipulated ("large major national hardware chain" vs. "small independent hardware store" vs. "hardware store"). Participants rated fairness (seven-point scales anchored by "unfair/faire", "not at all just/just", and "unreasonable/reasonable"). ANOVA of fairness revealed a main effect of justification (\(F(1, 256)=10.21, p < .01\)), qualified by its interaction with firm power (\(F(2, 256)=2.93, p = .06\); firm power was n.s. (\(p > .10\)). Raising prices due to costs was judged more fair when firm power was low/unspecified than when firm power was high (\(F_{high \ vs \ low}(1,256)=4.04, p < .05\); \(F_{high \ vs \ unspecified}(1,256)=4.68, p < .05\)). In contrast, raising prices due to demand was judged equally unfair regardless of firm power (\(F < 1\)). These results support \(H_1\).

- **Study 2** was a 2 (firm power: low, high) x 2 (justification: donate, keep profit) between-subjects design. For generalizability, we examine a different scenario from Kahneman et al. (1986a, p735) that describes a firm holding a toy auction, justified (or not) by donating the profits to charity. Power was manipulated similar to study 1; fairness was measured as in study 1. Participants also rated perceptions of exploitation and entitlement (respective sample items: "The store is... taking advantage of customers", "... free to price as it wishes"). ANOVA of fairness revealed a main effect of justification (\(F(1,199)=79.65, p < .01\)), qualified by its interaction with firm power (\(F(1,199)=3.47, p = .06\); firm power was n.s. (\(p > .10\)). Pricing was judged more fair with a donation justification for low vs. high power firms (\(F(1,199)=3.52, p = .06\); fairness did not differ in the absence of this justification (\(F < 1\)). Bootstrapping analyses (omitted for brevity’s sake) support mediation by perceived exploitation and entitlement. These results support \(H_2\).

- **Study 3** was a 2 (firm power: high, low) x 2 (PDB Prime: high, low) between-subjects design. After PDB priming (Zhang et al. 2010), participants read a scenario describing a cost-justified price increase by a high- vs. low-power firm (adapted from study 1). Fairness and exploitation/entitlement perceptions were measured as in study 2. ANOVA of fairness revealed an interaction of PDB and firm power (\(F(1,79)=7.50, p < .01\); main effects were n.s. (\(F’s < 1\)). When primed with high PDB, participants rated the price increase more fair for a low- vs. high-power firm (\(t=2.30, p < .05\); fairness did not differ for low PDB (\(t=1.54, p > .10\)). These results (including mediation) support \(H_3\), and \(H_2\).

- **Study 4** replicated study 3 with measured rather than manipulated PDB.

Four studies provide converging evidence that consumers respond differentially to price increases as a function of firm power and power distance belief, driven by perceptions of exploitation and entitlement. These findings provide novel insight into the role of firm power in the marketplace and have important implications for firms’ pricing strategy. High-power firms must exercise caution when justifying price increases, especially in high PDB settings.

**No Harm, No Foul: The Role of Inferred Harm in Perceptions of Price Fairness Under Price Maintenance**

**EXTENDED ABSTRACT**

Much research on price fairness draws on the principle of dual entitlement and its implication that a violation of a reference price is needed for perceptions of price unfairness (Kahneman, Knetsh, and Thaler 1986a,b; KKT), and thus typically examines prices that are higher than an available reference price (e.g., Campbell 1999). However, consumers can perceive prices as unfair that are not higher than a specific reference price. For example, sometimes consumers perceive the price of pharmaceuticals to be "unfair" even though the price has not increased nor has a competitive product been offered at a lower price.

We propose that consumers’ perceptions of price fairness are additionally influenced by concern for consumer welfare. Drawing on moral psychology, we propose that consumers are concerned about whether a lack of product affordability causes consumer harm. We examine whether inferences of consumer harm moderate the earlier finding that price maintenance following a cost decrease will be perceived as fair (e.g., KKT 1986b). We expect that the type of product, namely, the extent to which it is perceived as a necessity, will moderate perceptions of fairness of price maintenance after a cost decrease (H1; Study 1). We further propose that the level of consumer vulnerability moderates perceptions of the fairness of price maintenance (H2; Study 2).

While we propose that inferences of a negative impact on consumer welfare influence consumer perceptions of price fairness, the principle that a firm is allowed to protect itself from harm likewise holds. Thus, we expect that while the perceived fairness of a firm’s decision to maintain a price after a cost decrease will be moderated by consumer price vulnerability, a firm’s decision to increase a price after a cost increase will not be (H3; Study 3). Fairness does not require that a firm decrease its profits in order to improve the welfare of vulnerable consumers.

Lastly, we extend beyond examination of a firm’s decision to maintain a price after a cost decrease. We propose that concern with consumer welfare is sufficiently important as to apply in situations in which a consumer evaluates being charged a higher price than another consumer. We propose that the extent to which a consumer infers that another consumer will be harmed by not receiving the lower price moderates the perceived fairness of a price discount for another consumer (H4; Study 4).
Studies 1 & 2 were scenario lab studies with U.S. undergraduates. Study 1 (N = 60) manipulated the importance of the product for consumer welfare, using a scenario from KKT (1986b) in which a small firm has a decrease in costs. We manipulated whether the firm produced furniture (low importance) or medicine (high importance). Product importance moderated the perceived fairness of price maintenance; the price was perceived as less fair for a product that was more (M = 4.45) versus less (M = 5.25; \( p < .01 \)) important for consumer welfare. A bootstrapped mediation analysis indicated that the impact of product importance on perceived price fairness was mediated by inferences of harm to the consumer.

Study 2 (N = 96) manipulated consumer vulnerability by the inclusion of a description of the consumers of the product as “barely getting by.” As hypothesized, maintaining the same price when costs decrease was perceived as less fair when the consumer was more vulnerable (M = 4.76) as compared to less vulnerable (M = 5.46, \( r = 2.34, p < .02 \)). Inferred harm to the consumer revealed the same pattern; inferred harm was higher when consumers were described as barely getting by (M = 4.42) than not (M = 3.75), \( t = 3.03, p < .01 \). A bootstrapped mediation analysis indicated that the impact of the type of consumer on perceptions of price unfairness was mediated by perceived harm to the consumer.

Study 3 (N = 202 U.S. mTurk workers) examined the tradeoff between inferred harm to the consumer and harm to the firm with a 2 (Type of consumer: more vulnerable/less vulnerable) X 2 (price action: maintain with cost decrease/increase with cost increase). Using the two fair pricing conditions suggested by the principle of dual entitlement – maintaining price with a cost decrease and increasing price with a cost increase – enabled us to compare concern for consumer and firm welfare by exploring the underlying processes for each. We found a significant main effect of price action; maintaining price with a cost decrease was perceived as less fair (M = 3.6) than raising price with a cost increase (M = 4.7, \( r = 4.96, p < .001 \)). In line with our hypothesis, we also found a main effect of consumer type; both price actions were perceived as less fair when consumers were vulnerable (M = 3.7) than when they were less vulnerable (M = 4.6, \( r = 4.00, p < .001 \)). A bootstrapped mediation analysis indicated that the impact of the type of consumer on perceptions of price unfairness was mediated by perceived harm to the consumer, with an estimate for the indirect path of 0.403 and a 95% CI of .167 to .693. A second bootstrapped mediation analysis indicated that the impact of price action on perceptions of price unfairness was mediated by perceived potential harm to the company, with an estimate for the indirect path of 0.403 and a 95% CI of .167 to .693.

Study 4 (N = 85) extended to differential pricing, examining whether the perception of the fairness of another consumer getting a lower price than one’s own price is influenced by inferred harm to the consumer. Participants read that they were in line for a movie present. In addition, when a customized pricing program was presented, we test these predictions in three studies. Study 1 manipulated customized pricing (present/absent) and whether participants were primed to consider seniors as financially vulnerable (financially vulnerable/financially invulnerable). A significant interaction (F(1, 81) = 11.39, \( p < .001 \)) revealed that when senior vulnerability was primed, a senior discount was perceived as significantly fairer (M = 5.87) than no discount (M = 3.12), but that there was no effect of discount on perceived fairness with the financial invulnerability prime (M_{discount} = 4.88; M_{no\ discount} = 4.71).

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The Role of Interpersonal Attachment Anxiety and Security on Consumer Responses to Customized Pricing

EXTENDED ABSTRACT

Advances in technology have enabled marketers to offer individual-level customized prices based on the unique purchase patterns of consumers (Wang and Krishna 2012; Zhang and Wedel 2009). However, little is known about factors that influence consumers’ evaluations of customized prices in terms of consumers’ satisfaction and perceptions of fairness (Barone and Roy 2010). The present research focuses on how interpersonal attachment styles (Bowlby 1969) impact consumers’ responses to customized pricing tactics, including perceptions of fairness.

In customized pricing, a consumer’s purchase history is used to offer him/her an individualized discount, thus putting the consumer in an advantaged position and leaving other consumers in a less desirable position (Xia and Monroe 2010). In this regard, customized prices are similar to interpersonal relationships, in which individuals can be favored or not favored (Argo and Main 2008; Barone and Roy 2010). Thus, from an attachment theory (Bowlby 1969) perspective, consumers’ evaluations of customized prices may depend on their attachment style.

Attachment theory explains that people, innately motivated to form social bonds, develop interpersonal attachment styles based on early experiences with caregivers, and these attachment styles, or psychological orientations, impact individuals’ behavior throughout their lives (Ainsworth et al. 1978). Anxious attachment styles are held by individuals who have a strong need for closeness and are preoccupied with attachment, while also worrying about relationships and fearing rejection (Mikulincer and Nachson 1991). Since anxiously attached individuals are highly sensitive to interpersonal factors and have negative expectations regarding interpersonal situations (Cassidy and Kobak 1998; Ein-Dor et al. 2011), they likely perceive customized discounts as unfair. Similarly, they are likely to be less satisfied with an advantaged price that is based on customization rather than on programs that apply to broad groups of consumers (e.g., cardholder membership programs).

Secure attachment styles are held by individuals who, based on being cared for in a responsive manner, expect that others will be available when needed (Ainsworth et al. 1978). Therefore, securely attached individuals are less likely to be concerned about interpersonal fairness (Bowlby 1973). Further, securely attached individuals often seek variety, are comfortable engaging in financial risk-taking, and have positive expectations regarding interpersonal situations (Li et al. 2012). As such, the securely-attached are likely to be open to customized pricing and interpret variations of prices offered in individualized pricing programs as having positive implications. Thus, it is likely that securely attached individuals are satisfied when they receive customized prices. We test these predictions in three studies.

Study 1 manipulated customized pricing (present/absent) and used established scales to measure participants’ attachment style (Johnson et al. 2012) and satisfaction with the deal (Darke and Dahl 2003). A significant interaction between customized pricing and attachment style revealed that securely (anxiously) attached individuals reported lower (higher) satisfaction when there was no customized pricing program than when a customized pricing program was present. In addition, when a customized pricing program was present, anxiously attached individuals were less satisfied with the offered price than their more securely attached counterparts.

Study 2 examined consumer responses to customized prices that were the same versus lower (advantaged) than those charged to other customers to assess differential fairness and satisfaction (Haws
We propose that the price image of the place where these efforts are practiced and the extent to which firms draw attention to the environmental effort will affect whether consumers ascribe a firm’s motives as being based primarily in green (versus greed). Specifically, as there is a natural positive correlation between high price and perceived environmental friendliness (Yuan, Rajan, Krishna 2012), we expect consumers to infer more “green” motives to a firm with higher prices (versus a firm charging lower prices) (H1). Furthermore, when the higher priced firm makes consumer efforts in its green acts salient (versus not), we expect there is a greater attribution of greed (versus green) for such efforts compared to when a lower priced firm does so (H2). We also expect the effect of consumer-effort salience on green-greed attribution to be mediated by perceptions of the firm’s profit orientation (H3). The green-greed attribution is important because we expect it to drive consumers’ actual green behavior (H4), and the extent to which they blame (or credit) themselves (versus the firm) for green behavior (H5).

Study 1 and 2 were lab-based scenario studies in U.S. and Hong Kong. Undergraduate participants (n=197 for S1 and n=175 for S2) imagined that they had just checked into a hotel. We varied the price and whether or not a card was placed in the bathroom (“please reuse the towel to save resources”), making these 2(price: high vs. low) x 2(green effort: present vs. absent) between-subjects designs. We create a single item Green-Greed scale to measure the green versus greed attribution: “In my opinion, this hotel (1) is totally committed to going green; (4) will do green acts that will save them money; (7) is just cheap and is using “going green” as an excuse to save money.” In both studies, the low-priced hotel was perceived as being greedier than high priced hotel (H1). We also found that consumers perceived the high priced hotel as being more greedy (versus green) if they had an environment card versus when they said nothing at all; for lower priced hotels, the card had no effect on attributions (H2). In study 2, we also assessed the extent to which consumers perceived the hotel to be motivated by profit. Perceived profit motivation mediated the effect of price and green effort on green-greed attribution (H3).

Studies 3 and 4 were field experiments, which took place in a hotel chain in China. Participants (n=314 for S3 and n=281 for S4) were staff members of a large corporation participating in a training workshop. Participants were assigned to one of two hotels according to workshop themes (not performance). The two hotels, while under the same parent brand name, differ substantially in price (about US $125 vs. $37). We manipulated salience of green effort by whether or not a card was placed in the bathroom (“please reuse the towel to save resources”), making this a 2(price: high vs. low) x 2(salience of green effort: present vs. absent) between-subjects designs. We replicated the findings in S1 and S2, again supporting H1-H3. Further, consumers tended to reuse their towels more when they perceived the hotel as being green (versus greedy) (regression coefficient B = 0.20, p<0.01) (H4). Controlling for towel reuse, consumers felt that they themselves were more green when they perceived the hotel as being greedy (B=-.25, p<0.05), suggesting a zero sum game between the firm and customer (H5).

Given the mediating role of perceived profit orientation, Study 4 examined the effect of mitigating this motive by manipulating it directly in a 2 (price: high vs. low) x 2 (salience of green effort: yes, no) x 2 (profit orientation: control vs. mitigated) between-subjects design. In the high salience green effort condition, consumers were encouraged to save electricity by turning off electrical devices and managing room temperature via a note on a small card in the room. We manipulated profit orientation by placing different types of toothbrushes in the bathroom: either a regular plastic tooth brush (control condition) in a plastic bag package (standard practice in local hotels)
or one made of bamboo, in a recycled paper-box package (mitigated condition). In the control condition, we found the same price X effort interaction pattern on greed-green attribution as in the previous studies. However, when profit orientation was mitigated, the price X effort interaction was no longer significant, leaving only the finding that the high-priced hotel was perceived as being more green than the low priced one. Additionally, the greed-green attribution predicted actual electricity usage over the guest’s stay (B=-.66, p<0.01) (H4) and self credit/blame for conservation efforts (B=-.19, p<0.01) (H5). Together, our results have important implications for which firms have more to gain from green efforts, how these efforts should be made public, and how to encourage green behaviors.

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