The Inequity Penalty: Consumers Show Heightened Sensitivity to Inequitable Treatment in the Context of Apology

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The rise of customer loyalty programs means people are often aware that companies privilege and differentially reward higher status customers. We demonstrate people are uniquely troubled by inequitable treatment when it is offered in compensation for service failure, because it violates prescriptive norms surrounding restorative justice.

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Who’s Looking Where? Social Comparisons and Consumer Behavior
Chair: Julian Givi, Carnegie Mellon University, USA

Paper #1: Experiential Purchases Trigger More Envy Than Material Purchases do
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Paper #2: Two’s Company, Three’s a Crowd: Givers’ Oversensitivity to Other Givers’ Gifts
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Jeff Galak, Carnegie Mellon University, USA
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Paper #3: The Inequity Penalty: Consumers Show Heightened Sensitivity to Inequitable Treatment in The Context of Apology
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Paper #4: How Comparison Standards Influence Tradeoffs Between Absolute And Relative Outcomes
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SESSION OVERVIEW
It is well-known that people engage in social comparisons (Festinger 1954). Ever since Festinger’s seminal paper, this tendency has garnered attention from researchers in several fields, including consumer behavior. Indeed, consumer researchers have shown that social comparisons affect consumers’ feelings after viewing advertisements, their evaluations of dynamic pricing models, and their willingness to pay for various goods and services (Haws and Bearden 2006; Richins 1991; Van de Ven, Zeelenberg, and Pieters 2011). To that end, the goal of this special session is to further develop our understanding of the interplay between social comparisons and consumer behavior.

The first two papers in the session explore consumers’ misaligned expectations about the social comparisons made by others. Specifically, Lin, Van De Ven and Utz find that consumers become more envious of others’ experiential (vs. material) purchases, however, they incorrectly expect others to be more envious of their own material purchases. Givi, Galak, and Olivola study social comparisons in the gift giving domain. They show that givers expect a recipient’s liking of a gift to be influenced by how the gift compares to other givers’ gifts, but that a recipient’s actual liking of a gift does not change as a function of this consideration. Further, this expectation drives givers to both spend excessively on gifts and skip gift exchanges altogether. Rosenzweig and Critcher investigate how social comparisons differentially influence consumer response to apologetic (vs. other) actions of firms. They find that consumers are especially angered by inequitable compensation offered as part of an apology, and that this occurs because apologies trigger prescriptive norms connected to restorative justice, and inequitable remuneration violates those prescriptions. Importantly, they also identify boundary conditions for this effect, which are undoubtedly of great use to marketers. Dagogo-Jack and Beck study the relative strength of social (vs. temporal) comparisons. They find that consumers are more influenced by the latter than the former, and that this is because temporal comparisons present a greater potential threat to one’s self-concept than do social comparisons.

In sum, these papers investigate social comparisons while tying in several important areas of consumer research – material vs. experiential consumption, gift giving, consumer response to firm behavior, and temporal comparisons. This session is likely to be of great interest to researchers interested in any of these areas, as well as to those interested in envy, self-other decision making, prosocial behavior, firm decision making, and the self. Additionally, these papers raise many interesting research questions. For instance, when is it that decision-makers correctly predict the social comparison processes of others? Indeed, it seems that all sorts of decision-makers (e.g., consumers, gift givers, and firms) are misguided in their prediction of the social comparison processes of others (e.g., other consumers, gift recipients, and customers). Thus, a fruitful avenue for future research may be to develop a nuanced framework of when decision-makers are likely (vs. not likely) to be correct in these predictions, and offer prescriptions for how to reduce the former.

Experiential Purchases Trigger More Envy Than Material Purchases do

EXTENDED ABSTRACT
An important distinction in consumer psychology is that between experiential purchases (spending money with the primary intention of acquiring a life experience) and material purchases (spending money with the primary intention of acquiring a material possession). The result of an extensive program of research showed that experiential purchases typically bring more happiness and satisfaction than material purchases do (Gilovich, Kumar, & Jampol, 2015). However, we believe this is not the full picture. Although we think the past findings are convincing that (most) people would have a higher well-being when they were to spend more on experiences than on material goods, we also think that there are situations in which the experiential purchases can have some negative effects - triggering other people’s envy (Krasnova, Wenninger, Widjaja, & Buxmann, 2013).

We investigated whether experiential or material purchases are more likely to trigger envy. Prior research on the distinction between experiential and material purchases could lead to both a prediction that experiential purchases would trigger more envy and to the prediction that material purchases would trigger more envy:

Experiential purchases make people happier because they tend to be more closely associated with one’s central identity than material purchases are (Carter & Gilovich, 2012). Self-relevance of a social comparison is also an important antecedent of envy: things that are more important to you and are seen as a larger part of your identity are more likely to trigger envy (Salovey & Rodin, 1984). This would thus predict that experiential purchases trigger more envy in others.

Experiential purchases make people happier because it is more difficult to compare someone else’s experiential purchase to what one owns oneself, than it is for material purchases (Carter & Gilovich, 2010). The easier it is to make a (social) comparison, the more envy one experiences. This would predict that material purchases elicit more envy.

We therefore test whether it is experiential or material purchases that trigger more envy in three studies. We explore the causes of envy for such purchases (Studies 1 and 2) and whether people are envious for the same things that they think others are envious for.
Studies

Study 1 asked participants to look through their own Facebook timeline, and write down the first post about an experiential and material purchase they could find (in a maximum time period of ten minutes). Among 172 Facebook users, 131 participants found both types of posts, 39 participants found only a post of experiential purchase, and 2 participants found only a post of material purchase. This suggests that posts about both experiential and material purchases are quite common, but experiential purchases are shared more than material ones are. Most importantly, participants reported a higher level of envy when they read the reported experiential post than the reported material post. Self-relevance, the perception that the purchase of the other was also important for oneself, was much higher in the experiential condition than in the material condition. The comparability of experiential purchases was lower than that of material purchases. Furthermore, the effect of experiential purchases on envy was mediated by self-relevance of the topic, not by the comparability.

Study 2 (N = 241) finds that for hypothetical Facebook posts of an experiential or material purchase (of the same price) people report more envy for the experiential purchase. We also again find that an experiential purchases is seen as more self-relevant, and self-relevance (partially) mediated the effect of experiential purchases on experienced envy.

If experiential purchases are more likely to trigger envy, sharing experiential purchases on for example social media can have two possible negative consequences. First, envy is a negative emotion that contains feelings of frustration and in general is an experience that people would rather not feel (Smith & Kim, 2007). Indeed, envy has been found to negatively affect life satisfaction (Krasnova, Widjaja, Buxmann, Wenninger, & Benbasat, 2015) and to increase depression (Appel, Crusius, & Gerlach, 2015). Second, people also dislike being envied by others (Foster, 1972; Rodriguez-Mosquera, Parrott, & Hurtado de Mendoza, 2010; Van de Ven, Zeelenberg, & Pieters, 2010). So if posting about experiences is likely to trigger more envy, the readers of such a message might feel negative and the posters of the message might worry about being envied.

In the third study (N = 322) we test why people quite easily share experiential purchases on social media (see Study 1), even though these posts are likely to trigger envy and people in general do not like to be envied. We replicated again that people who took the perspective of a reader of social media posts indicated that they would experience more envy from experiential posts. However, people who took the perspective from someone writing a Facebook post expected that posts about material purchases would actually trigger more envy in others.

Conclusion

People become more envious when they see others display their experiential purchases than when they display their material purchases. However, they expect others to be more envious for material purchases. These effects seem to occur because experiences are more important to people, and more important social comparisons trigger stronger envy (Salovey & Rodin, 1984). Past research has documented many positive effects of experiential consumption (Gilovich et al., 2015), but the current work also shows a negative side effect as it increases envy.

So why do people share experiential purchases so often, if they are likely to elicit envy? One possibility is that people do not necessarily want to be envied, but want to be admired (which is close to, but distinct from, envy, see Van de Ven, 2016, 2017). Another reason is that people hold favourable views over those who spend their money on experiences (Van Boven, Campbell, & Gilovich, 2010), something we replicate in Study 2 and Study 3.

Two’s Company, Three’s a Crowd: Givers’ Oversensitivity to Other Givers’ Gifts

EXTENDED ABSTRACT

Social comparisons are made by consumers every day, and these comparisons constantly influence attitudes, beliefs, and behavior (Festinger 1954). That said, one context in which social comparisons are likely quite prevalent, but which we know little about in terms of social comparisons, is gift giving. That is, at many gift exchanges there are several gifts being exchanged, and thus there is the opportunity for givers and recipients to compare gifts against each other; however, these comparisons and their downstream consequences are yet to be empirically investigated.

To that end, this research investigates whether givers believe a recipient’s liking of their gift changes as a function of how it compares to other givers’ gifts, and whether a recipient’s actual liking of a gift changes based on how it compares to the other gifts the recipient receives. Across several experiments, we find an asymmetry such that givers believe recipients will like their gift more when it compares favorably (vs. unfavorably) to other givers’ gifts, but a recipient’s actual liking of a gift does not fluctuate in this manner. Further, to avoid giving gifts that they believe will go unappreciated, when givers know others will be giving high (vs. low) quality gifts, they spend more money on gifts and even avoid gift exchanges altogether.

Study 1 serves an initial demonstration of the effect. The study is a 2 (Role: Giver, Recipient) x 2 (Gift Rank: Superior, Interior) between-subjects design. Participants in the Giver conditions imagine they and another giver (Jordan) are invited by their friend (Alex) to his/her birthday dinner. Participants in the Recipient conditions imagine they invite two friends (Alex and Jordan) to their own birthday dinner. Participants in the (Giver-Superior / Giver-Inferior) condition imagine they give Alex, who likes wine, two bottles of wine, and Jordan gives (one bottle / three bottles) of the same wine. Participants in the (Recipient-Superior / Recipient-Inferior) condition imagine they take Alex’s gift the same wine, and Jordans gives them (one bottle / three bottles) of the same wine. Next, participants in the (Giver / Recipient) conditions indicate (how much they think Alex likes their two bottles of wine / how much they like Alex’s two bottles of wine). The results reveal that participants in the Giver-Superior condition thought Alex would like their gift more than participants in the Giver-Inferior condition, but participants in the two Recipient conditions liked the gift the same (interaction p < .01).

Study 2 investigates the extent of givers’ misguided beliefs. The study is a 2 (Role: Giver, Recipient) x 2 (Gift Rank: Superior, Interior) between-subjects design. The setup is similar to study 1’s, except participants in the (Giver-Superior / Giver-Inferior) condition imagine they give Alex (one bottle / two bottles) of wine, and Jordan gives (no gift because he/she did not have time to get a gift / three bottles of the same wine). Participants in the (Recipient-Superior / Recipient-Inferior) condition imagine Alex gives them (one bottle / two bottles) of wine, and Jordan gives them (no gift because he/she did not have time to get a gift / three bottles of the same wine). Next, participants in the (Giver / Recipient) conditions indicate (how much they think Alex likes their two bottles of wine / how much they like Alex’s two bottles of wine). The results reveal that participants in the Giver-Superior condition thought Alex would like their gift more than participants in the Giver-Inferior condition, but participants in the two Recipient conditions liked the gift the same (interaction p < .01).
while participants in the two Recipient conditions liked Alex’s gift the same (interaction \( p < .03 \)).

Study 3 demonstrates an important economic consequence of this miscalculation by givers. Specifically, study 3 employs two conditions (Gift Rank: Superior, Inferior). Participants imagine they are planning on getting a friend, who likes movies, two gift certificates to the movies for his/her birthday. Next, participants in the (Superior / Inferior) condition learn another giver is going to be giving (one certificate / three certificates) to the movies, and then decide whether to purchase two certificates as planned, or to instead purchase five (the cover story was that the theatre was having a sale on a five-certificate package). After choosing, participants indicate how much Alex would have liked two gift certificates if they would have decided to purchase two. As expected, participants in the Inferior condition were more likely to upgrade to five certificates than were participants in the Superior condition (\( p < .001 \)), and this was mediated by participants in the Inferior condition believing their two certificates would be liked less, compared to participants in the Superior condition (\( p < .01 \)).

Study 4 demonstrates a second downstream consequence. Specifically, study 4 employs two conditions (Gift Rank: Superior, Inferior). Participants imagine they purchase an authentic jersey of an average athlete on the local sports team, and are planning on giving it as a “Secret Santa” gift to a coworker who likes sports, at an optional work party. Next, participants in the (Superior / Inferior) condition learn another giver (who also drew the recipient’s name in the Secret Santa) is going to be giving the recipient (a plain white t-shirt with a generic logo of the local sports team on it / an authentic jersey of the recipient’s favorite athlete on the local sports team), and then choose whether they will still attend the party and give the recipient his/her gift, or instead go see their favorite band in concert and not give the recipient any gift (the cover story was that another friend invited the participant at the last-minute to the concert, which was at the same time as the party). After choosing, participants indicate how much the recipient would have liked their gift if they would have given it. As expected, participants in the Inferior condition were more likely to attend the concert than were participants in the Superior condition (\( p < .03 \)), and this was mediated by participants in the Inferior condition believing their gift would be liked less, compared to participants in the Superior condition (\( p < .01 \)).

The Inequity Penalty: Consumers Show Heightened Sensitivity to Inequitable Treatment in The Context of Apology

EXTENDED ABSTRACT

We live in an era when customer relationship management and loyalty programs have become the norm, employed in industries ranging from air travel to restaurants to cosmetics. Businesses identify their most valuable customers and treat the top twenty percent quite differently than the bottom eighty. For the majority of consumers who do not have privileged status with a company they purchase from, this means they may often be confronted by inequity and often reminded of their relatively low worth as a customer. But while inequitable treatment is most often deployed in the context of rewarding valuable customers, inequitable treatment can also be found in service recovery, when compensating customers who have been inconvenienced or mistreated. In six studies set across three different business contexts, we find that people are especially sensitive to—and angered by—inequitable compensation offered as part of an apology.

We hypothesize that this is because apologies activate prescriptive norms associated with restorative justice—specifically the principle of proportionality—and inequitable remuneration violates those prescriptions. Of course, upward comparisons are often painful (Collins 1996), meaning that even under ordinary conditions consumers should generally feel it is more fair to be treated the same as instead of worse than fellow customers (Soderlund and Collinder 2015). But our argument is that this inequity penalty—the moral dissatisfaction that consumers have from being treated inequitably compared to equitably—is particularly acute in the context of apology. This is because people are experiencing moral outrage not merely at the inequity itself, but also at the norm violation that inequity represents. Critically, by exploring the conditions that elicit and moderate the impact apology has on people’s response to inequitable treatment, we gain insight into how companies can have their cake and eat it too—differentially compensate high status customers without (excessively) angering their broader customer base.

In Study 1, we demonstrate that people are more troubled by inequitable compensation offered in apology for wrongdoing than when that same compensation is provided for a different reason. Participants imagined receiving compensation either for suffering through a long flight delay or in celebration for being part of an airline’s millionth flight. Within each of these conditions, participants learned that a frequent flier sitting next to them received either the same (equitable) or greater (inequitable) compensation than they had. While inequity rankled in both conditions, participants were significantly more troubled by inequitable (relative to equitable) compensation when that compensation was offered as part of an apology for the airline’s wrongdoing.

Studies 2 and 3 were both designed to rule out the possibility that this heightened ‘inequity penalty’ was caused by negative experiences (in this case service failures) hyper-sensitizing people to their relative standing or to subsequent slights. In Study 2 all participants imagined taking a cruise to celebrate their anniversary, where they were part of large group of people who contracted food poisoning while on board the ship. Participants who imagined receiving flowers from the cruiseline in compensation for that harm were more upset by the fact that they received a smaller bouquet than first-class passengers than participants who imagined receiving the same inequitably-sized bouquet from the cruiseline as a happy anniversary gift. Study 3 also ruled out the negativity-sensitization hypothesis, but more tightly linked the inequity penalty to our hypothesized mechanism: that it arises in response to a violation of the norms associated with restorative justice. We find that the inequity penalty is heightened specifically when inequitable compensation is offered by a company apologizing for its own wrongdoing (e.g. by a hotel whose own fire alarm went off at night), rather than when it accompanies an “empathetic” apology for a harm the company itself was not responsible for (e.g. by a hotel whose guests were woken by a fire alarm in a neighboring building).

Studies 4 and 5 directly test our hypothesis that it is specifically violations of the principle of proportionality that drive the inequity penalty. We do so by manipulating the level of harm that two airline passengers receive, and demonstrate that the inequity penalty is reduced when the amount of harm that those customers have suffered is also unequal. In Study 4, we gain insight into what type of harms people factor into their expectations of proportional restitution. Across measures of both moral wrongness and online word of mouth, we find that the inequity penalty is reduced when consumers are differentially harmed by the firm directly (e.g. suffering different length flight delays), but also when they suffer differential consequences that result the same direct harm (e.g. when both customers experience the same flight delay, but only one misses an important business meeting because of it). In Study 5, we extend this work, de-
terminating that companies need not even be aware of the differential consequences their service failures create in order for the inequity penalty to be reduced as a result of them.

Finally, in Study 6, we take lessons learned from studies 2, 4, and 5 to identify ways companies can have their cake and eat it too—differentially compensate high status customers following service failure, without unduly angering their broader customer base. We show that the inequity penalty is reduced both when companies dissociate the compensation from apology (and in fact being explicit that it is being offered to maintain the higher status customer’s patronage), or when companies tie differential compensation to differential assumed harm for higher status customers.

Our work breaks new ground in service recovery research, which has almost exclusively studied the effects of compensation and apology separately (e.g. Roshch and Gelbrich 2014; Smith, Bolton, and Wagner 1999; Roshch and Kaiser 2013; Franz and Benningson 2005). What little work addresses these concepts together is focused on whether they are additive or substitutable (Boshoff 2012; Wirtz and Matilla 2004). We take a qualitatively new approach by thinking about how apologies may constrain the ways in which people see compensation as just or not. We also offer applied lessons that businesses can implement in their service recovery efforts.

### How Comparison Standards Influence Tradeoffs Between Absolute and Relative Outcomes

#### EXTENDED ABSTRACT

Prior research has demonstrated that two types of comparison standards can influence people’s judgments and preferences—other people (i.e., social comparisons (SC); Festinger 1954) and one’s own past (i.e., temporal comparisons (TC); Albert 1977). Typically, individuals are more satisfied by outcomes where they are better (vs. worse) than others (Fox and Kahneman 1992; Klein 1997) and better (vs. worse) than their past (Aronson and Linder 1965; Hsee and Abelson 1991). In fact, people sometimes prefer outcomes in which they are better than others (e.g., you make $50,000/year; others make $25,000/year) to absolutely superior outcomes in which they are worse than others (e.g., you make $100,000/year; others make $200,000/year; Solnick and Hemenway 1998, 2005). That is, individuals will forgo a better absolute outcome for the sake of being relatively superior to others. Whereas such tradeoffs have been demonstrated for SC, whether similar effects hold for TC is unclear. Furthermore, this was attenuated among liberals.

Our work breaks new ground in service recovery research, which has almost exclusively studied the effects of compensation and apology separately (e.g. Roshch and Gelbrich 2014; Smith, Bolton, and Wagner 1999; Roshch and Kaiser 2013; Franz and Benningson 2005). What little work addresses these concepts together is focused on whether they are additive or substitutable (Boshoff 2012; Wirtz and Matilla 2004). We take a qualitatively new approach by thinking about how apologies may constrain the ways in which people see compensation as just or not. We also offer applied lessons that businesses can implement in their service recovery efforts.

### Study 2

Study 2 built on these findings by directly comparing the effect of TC and SC standards on these tradeoffs. Two-hundred and eighty-seven participants were randomly assigned to one of three conditions and made a series of twelve forced choices that were all framed in terms of TC, SC, or no comparisons. For example, participants in the TC condition chose between a) making $50,000 when they used to make $25,000 and b) making $100,000 when they used to make $200,000; in the SC condition, participants chose between a) making $50,000 when others make $25,000 and b) making $100,000 when others make $200,000; in the no comparison (control) condition, participants chose between making $50,000 and making $100,000. The key dependent variable was the proportion of relatively superior (but absolutely inferior) outcomes selected (e.g., choosing $50,000 over $100,000). A one-way ANOVA revealed a significant main effect of comparison condition (F(2, 284) = 32.32, p < .001). Participants chose absolutely worse off (but relatively superior) outcomes more frequently in the TC condition (M = 37.27%) than in the SC condition (M = 20.51%) or control condition (M = 12.15%). Notably, simple contrasts revealed a significant difference between the control and SC conditions (t(284) = 7.84, p < .001), and the TC and SC conditions (t(284) = 5.42, p < .001). Thus, it appears that the desire for relatively (vs. absolutely) superior outcomes is stronger when making comparisons to other people than to one’s own past.

In study 3, we investigate a boundary condition of the demonstrated effect. We propose that individuals’ greater sensitivity to change than to the level of an outcome (Kahneman and Tversky 1979) can account for the stronger preference for relative temporal superiority than relative social superiority. Indeed, TC necessarily involves change (or its absence), whereas SC primarily concerns static levels. Accordingly, factors such as political ideology that reflect individuals’ sensitivity to change should moderate the differential effect of TC and SC standards. As liberals are generally less averse to change than conservatives (Jost et al. 2003, 2008), we expect the effect of comparison standard to be attenuated among liberals.

Two-hundred and three participants were randomly assigned to either a TC or SC condition and completed the same choice task from study 2, after which they reported their political ideology (PI) on a 1 (very liberal) to 7 (very conservative) scale. A linear regression on the proportion of relatively superior choices selected revealed main effects of comparison standard (b = .06, t(199) = 3.35, p = .001) and PI (b = .02, t(199) = 2.20, p = .029), qualified by the predicted interaction (b = .02, t(199) = 2.29, p = .023). A floodlight analysis revealed that the preference for absolutely inferior outcomes was significantly greater in the TC condition than in the SC condition at any level of PI above 2.71 (b = .08, t(199) = 1.97, p = .05). That is, conservatives—who are more threatened by change—were more likely to prefer the relatively superior (but absolutely inferior) outcome when comparing to their past than when comparing to others; however, this was attenuated among liberals.
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