I Can Find a Better Deal: the Effect of Power Distance Belief on Price Sensitivity

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The present research explores how PDB – the extent to which people accept and endorse hierarchy – influences price sensitivity. Four experiments suggest that high (vs. low) PDB individuals are less price sensitive because they have lower perceptions of self-efficacy, which reduces their perceived ability to get better deals.

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EXTENDED ABSTRACT

The current research investigates the effect of the cultural dimension of power distance belief (PDB)—the degree to which people endorse and expect inequality in society (Hofstede 2001; Zhang, Winterich, and Mittal 2010) on consumer’s price sensitivity—the tendency to expend effort in looking for better priced options. In this paper, we propose that high (vs. low) PDB individuals are less price sensitive because they have lower perceptions of self-efficacy, which reduces their perceived ability to obtain better deals.

Specifically, when PDB is high, people endorse social hierarchy and accept inequality (Carl, Javidan, and Gupta 2004; Hofstede 2001). These societies, such as the caste system in India, have a more fixed and immutable structure and discourage mobility across social classes. In contrast, low PDB societies value equality and tend to have a more flexible societal structure (Carl et al. 2004). They also encourage and promote mobility across social classes (e.g., “Pursue the American dream”).

We propose that the above-noted limitations in high (vs. low) PDB cultures reduce people’s perceptions of self-efficacy—an overall confidence in one’s ability to complete challenging or novel tasks (Schwarzer and Jerusalem 1995). Indeed, several studies suggest that Asians perceive themselves to be lower on self-efficacy than do Westerners (Cianni 1994; Eaton and Dembo 1997; Lam, Schaubroeck, and Aryee 2002; Mau 2000; Schaubroeck, Lam, and Xie 2000), suggesting that PDB may reduce perceptions of self-efficacy. Because high PDB societies are rigid and discourage social mobility, they may give lesser hope for upliftment to its members. Research also suggests that individuals in high PDB societies experience more constraints and restrictions (Hofstede 2001; Zhang et al. 2010) and tend to be more self-critical (Heine et al. 1999). Moreover, self-efficacy is determined by each individual’s past experiences in various contexts (Sherer et al. 1982). Therefore, people in high PDB societies may be more skeptical about their ability to get things done. Similarly, people differ in terms of how to respond to authority in family and school life depending on PDB and these determine people’s self-efficacy (Oettingen 1995). Accordingly, high (vs. low) PDB individuals may have lower perceived self-efficacy.

We further expect the lower perceived self-efficacy among high (vs. low) PDB individuals to demotivate them from searching for lower prices, showing lower price sensitivity. There is always uncertainty (i.e., risk) associated with searching for lower prices because people may or may not be able to find lower prices even after trying. Therefore, people with greater confidence in their ability to conduct a challenging task (i.e., those high, versus low, in self-efficacy) may be more likely to search for lower prices. Formally,

Hypothesis 1: When PDB is high (vs. low), people are less likely to expend the time and energy in order to find the lowest prices (i.e., are less price sensitive).

Hypothesis 2: Perceived self-efficacy mediates the effect of PDB on price sensitivity.

We also test a boundary condition for the effects posited above. Processing fluency increases self-efficacy (White, MacDonnell, and Dahl 2011). Hence, we expect that when people are given products or services that have a hierarchical (vs. equal) structure (e.g., dividing customers into different classes and providing different benefits based on the class vs. treating all customers equally regardless of the customer class), high (vs. low) PDB individuals will experience higher processing fluency stem from the match between the product structure and their belief, and hence, perceive higher self-efficacy, leading to higher price sensitivity.

Hypothesis 3: When PDB is high (vs. low), people are more likely to expend the time and energy in order to find the lowest prices for hierarchically (vs. equally) structured products or services.

In study 1a, participants were randomly assigned to the high (N = 46) or low (N = 45) PDB condition. We used the PDB manipulation from Zhang et al. (2010). Price sensitivity was measured via a 5-item, 7-point scale (α = .80) developed and validated by Lichtenstein, Ridgway, and Netemeyer (1993). A sample item is “I will grocery shop at more than one store to take advantage of low prices.” An ANOVA on price sensitivity revealed that low (vs. high) PDB individuals were more price sensitive (MlowPDB = 4.64, SD = 1.21, MhighPDB = 4.04, SD = 1.18; F(1, 89) = 5.86, p < .02).

In study 1b, PDB was measured by using Yoo, Donthu, and Lenartowicz (2011)’s scale (α = .80). Thereafter, participants were given specific purchasing situations with three different types of products (digital camera, laptop, and designer clothing) in which they found the item to purchase in a store. They were told that they might find a cheaper price if they keep searching at other stores or online. Each participant was asked to indicate his/her intention to try other stores or websites to find a lower price for each product. Results suggested that the effect of PDB on price sensitivity index is significantly negative (β = -.28, t(128) = -3.79, p < .01), as predicted.

Study 2: PDB was measured as in study 1b and price sensitivity was measured as in study 1a. Lastly, general self-efficacy was measured via a 10-item, 4-point scale (α = .89) developed and validated by Schwarzer and Jerusalem (1995). We replicated the negative impact of PDB on price sensitivity (β = -.24, t(146) = -3.16, p < .01). Further, a bootstrapping procedure with 10,000 iterations (Model 4, Hayes 2012) indicated that the indirect effect of self-efficacy on the link between PDB and price sensitivity was significant (β = -.03, CI95 % = -.1037, -.0003), suggesting the effect of PDB on price sensitivity is mediated by self-efficacy.

Study 3: PDB was manipulated as in study 1b (high PDB condition: N = 174 vs. low PDB condition: N = 173). Thereafter, participants were randomly assigned to the hierarchically structured airline service (N = 177) or equally structured airline service (N = 170) condition. They were asked to indicate their price sensitivity about the flight ticket purchases (α = .86). A 2 x 2 ANOVA revealed a significant two-way interaction (F(1, 343) = 7.77, p < .01). Further, when the product structure was equal, low (vs. high) PDB individuals were more likely to search for lower prices (MlowPDB = 5.68 vs. MhighPDB = 6.05; F(1, 343) = 4.44, p < .05). However, when the product structure was hierarchical, high (vs. low) PDB individuals were marginally more likely to search for lower prices (MlowPDB = 6.11 vs. MhighPDB = 5.80; F(1, 343) = 3.36, p < .07).

Taken together, these findings support our prediction that high (vs. low) PDB individuals are less likely to be price sensitive (i.e., they have a lower tendency to expend effort to search for lower prices), and that this effect is mediated by self-efficacy. We also reveal an important boundary condition, which suggested that self-
efficacy can be enhanced when the product structure matches with consumer’s societal values.

REFERENCES


