

Perceptions of unfairness in price increases: an experimental study

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RESUMO

Percepção de injustiça em aumentos de preço: um estudo experimental

Neste artigo, apresenta-se experimento realizado com o objetivo de investigar os antecedentes e as consequências da percepção de injustiça em uma situação de aumento de preço. No modelo teórico proposto afirma-se que a dependência do consumidor em relação ao fornecedor do serviço e a relevância que o consumidor atribui ao serviço afetarão os graus de percepção quanto à injustiça de preços, de raiva e de intenções de reclamar e retaliar. Os resultados dão suporte a todas as hipóteses especificadas no modelo. Os resultados indicam que certas situações de percepção de injustiça não apenas levam a emoções mais fortes e reações mais dramáticas por parte de consumidores, mas também permitem que se antecipem quais as situações de injustiça percebida que oferecem maiores riscos e maior potencial de conflito.

Palavras-chave: injustiça de preços, aumento de preço, raiva, relevância do serviço, dependência do fornecedor do serviço.

1. INTRODUCTION

Consumers expect fair pricing practices and are particularly sensitive to price increases considered unacceptable or unfair. Evidence suggests that perceptions of unfair pricing practices can harm a company's image and limit its profits (Campbell, 2007). Most research on this topic, however, has focused on the cognitive factors related to these perceptions. This study investigates the relationships between the unfairness perception, negative emotions and behavioral intents. Furthermore, concerning the antecedents of the unfairness price perception, we evaluate the impact of two other variables: the degree of consumer dependence on the service provider and the relevance of the service itself.

We examine the antecedents and consequences of the price unfairness perceptions in a scenario in which the perception that a price increase is unfair already exists. In such scenario, with regard to the antecedents of the unfairness

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perception, we will investigate, first, if such a perception becomes stronger as the degree of consumer dependence on the provider increases. The degree of dependence on the provider can be due to either lack of competition, or high costs of changing (Joshi & Arnold, 1997).

Secondly, we will examine if the unfairness perception becomes stronger as the degree of the service relevance to the consumer increases. We suggest that the higher the relevance to the consumer, the stronger the perception that a price increase is unfair. Thirdly, we will examine the interaction effects of relevance and dependence on the price unfairness perception. We expect that when both relevance and dependence are high, the judgment of fairness will reach the highest levels of intensity. With regard to the consequences of the unfairness perception, we propose that the higher the unfairness perception, the stronger the feelings of anger associated with the perception. We also investigate how anger relates to different consumer behavioral intentions.

2. THEORETICAL BASIS

Kahneman, Knetsch and Thaler (1986) introduce the notion that, in addition to legal and budget restrictions, community principles of justice tend to restrict businesses' efforts to maximize profits. They propose that a principle of *dual entitlement* (*italics in the original*) governs community standards of fairness. In other words, consumers and companies alike have established rights in terms of the so-called *reference transaction*. A reference transaction is characterized by a reference price for the consumer (market prices, posted prices and the history of previous transactions) and by a positive reference profit for the company. The company must not violate the principle of dual entitlement to arbitrarily increase its profits. However, when the reference profit is threatened (by increasing costs, for example) consumers tend to perceive price increases as fair or acceptable.

Although the Kahneman *et al.* (1986) research did break ground with respect to consumer perceptions of price fairness, they did not investigate its direct impacts on consumer behavior. Their main conclusions showed that price fairness: is regulated by social norms; can affect market behavior; is a variable that cannot be ignored by the consumer behavior microeconomics field and; can be summarized by a number of informal customers' entitlements. Until the mid 1990s, the majority of published studies on price fairness perceptions were concerned with confirming or refuting the conclusions of the Kahneman *et al.* (1986) study (see details in Urbany, Madden & Dickson, 1989; Kalapurakal, Dickson & Urbany, 1991; Maxwell, 1995).

In the late nineties, the research on price fairness began to take into account additional psychological aspects of fairness judgments, underscoring the importance of motives, control and causes of the price increase (Campbell, 1999; Vaidynathan & Aggarwal, 2003). Campbell (1999) shows that when the

consumer judges the fairness of a price increase, he/she, besides making inferences about supplier cost/profits (as proposed by Kahneman *et al.*, 1986), also makes inferences about the company's intentions/motives in setting the price. Motives perceived as being negative, such as exploiting a situation to increase profits, lead to perceptions of unfairness and to lower intention to buy.

Xia, Monroe and Cox (2004) propose a conceptual model of antecedents and consequences of the perception of fairness in prices. They stress that research, until then, had essentially focused on the cognitive aspects of this judgment and neglected the emotional aspects. The authors pointed to the need to study consumer emotions, in line with the present trend of consumer research (Bagozzi, Gopinath & Nyer, 1999), and suggest that the field of fairness perception in prices holds some important research opportunities. The field lacks empirical studies that examine the unfairness perceptions and the consumers' emotions in situations of price increases, as well as the consequences of such increases in terms of behavioral intent.

Despite the fact that the literature on unfairness indicates that people perceive some injustices as being more serious than others, and that this perception leads to stronger negative emotions, especially anger (Finkel, 2001), the issue has been examined in the specific literature only in more recent studies (Campbell, 2007; Schweitzer & Gibson, 2008; Namkung & Jang Soo, 2010). The literature on price fairness does not yet allow us to predict, for instance, which price increase situations will lead to the most negative reactions and which consumer segments are more likely to react. Two factors that are important to the consumer when judging the unfairness of a price increase have not been yet examined: the degree of consumer dependence on the provider and the relevance of the service to the consumer. The importance of these variables has already been established in other areas of marketing research (Lauren & Kapferer, 1985; Gotlieb, Schlacter & St Louis, 1992; Joshi & Arnold, 1997; Nyer, 1997).

Among the studies conducted, only a few investigated the context of continuous services, where the relationship between the consumer and the provider is of long term (Joshi & Arnold, 1997; Nyer, 1997). These studies indicate that the costs of changing may lead consumers who judge a price as unfair not to switch providers in the short term. However, even if consumers do not take this step, they have a high potential to cause damage to the provider of services through their short-term behavior. Moreover, in a longer term perspective, the provider may experience the effects of the perceived unfairness through the loss of client loyalty and high turnover rates.

3. HYPOTHESES

The hypotheses we tested are grounded in the few relevant proposals in the literature and can be summarized as follows: consumers judge some price unfairness situations as being more

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