



Enhancing valuation: the impact of self-congruence with a brand on the endowment effect[☆]



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ABSTRACT

The endowment effect states that individuals are more likely to overvalue objects that they own, an effect that has been demonstrated repeatedly across numerous experiments under a variety of boundary conditions. Research, however, has yet to examine how an individual's perceptions of congruence with an object may impact the endowment effect. This research fills this gap by examining how branding impacts the endowment effect. Using self-congruence theory, this paper demonstrates that self-congruence with a brand will impact both the price a seller is willing to accept for an object and the price a buyer is willing to pay for an object. Moreover, self-congruence with the brand impacts valuation only when it is positive with no effect shown under conditions of brand incongruence. Furthermore, this research demonstrates that the endowment effect can be qualified under specific conditions of asymmetry in self-congruence with the brand between the seller and the buyer. Specifically, buyers with high perceptions of self-congruence with the brand will be willing to pay a price that is not statistically different to that of the price demanded by sellers who are incongruent with the brand. Conversely, the disparity between valuations, as compared to a control, is increased when the seller is congruent, but the buyer is incongruent with the brand.

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1. Introduction

Self-congruence theory suggests that individuals prefer to consume products and brands that symbolize who they are for their own affirmation (Belk, 1988) or to make a statement to others about their identity (Ahuvia, 2005). Moreover, individuals tend to purchase objects that are consistent with their self-concept due to a desire to behave consistently with their own self views (Sirgy, 1982). As an indicator of its importance in decision making, self-congruence has been shown to influence political preferences (Caprara and Zimbardo, 2004), donation behavior (Winterich and Barone, 2011), and responses to advertising appeals (Hirsh, Kang, and Bodenhausen, 2012).

Although self-congruence research demonstrates that individuals prefer items consistent with their identity (*ceteris paribus*), research does not currently examine if such preferences in judgment translate to a willingness to pay more. The present research extends our

understanding of self-congruence theory by examining the impact that self-congruence with a brand has on the price an individual is willing to pay (WTP) to purchase an object as well as the price they are willing to accept (WTA) to sell an owned object.

With regard to individuals' WTP and WTA, research on the endowment effect has consistently demonstrated that sellers demand more for an item than buyers are willing to pay for it (Thaler, 1980). However, this robust research stream has evaluated individuals' appraisals of an object solely in terms of considering the economic value of a product (e.g., a coffee mug) without considering the impact of branding (e.g., a Starbucks coffee mug). This paper specifically proposes that having a high degree of perceived congruence between one's self and a brand will increase both the WTP price (buyer) and the WTA price (seller), compared to valuations made by buyers and sellers who perceive the branded product as incongruent with their self-concept or those who have been given an unbranded product.

This proposition has important theoretical implications for the endowment effect in scenarios when an asymmetry in self-congruence exists between the seller and the buyer. Although past research has examined asymmetries between buyers and sellers and their corresponding impact on the endowment effect (for example, Kleber, Dickert, and Betsch, 2013; Morewedge et al., 2009; Pachur and Scheibehenne, 2012), research has yet to examine asymmetries between buyers and sellers that occur due to relationships with the

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brand. Specifically, this research suggests and finds that when an asymmetry in self-congruence exists due to perceptions of high congruence for the seller and perceptions of low congruence for the buyer, the endowment effect will be magnified, causing the gap between WTA prices and WTP prices to increase as compared to an unbranded product. Conversely, the disparity between WTP prices for buyers with high perceptions of self-congruence and sellers with low perceptions of self-congruence will be affected potentially attenuating the endowment effect. Thus, the current research integrates and extends both the literature on the endowment effect, by considering the impact of brand (beyond product) on price valuation, and the literature on self-congruence by assessing the impact of brand congruence on price valuations beyond judgment.

2. Endowment effect

Stemming from the idea of loss aversion, where the disutility of giving up an object is greater than the utility associated with acquiring it (Kahneman, Knetsch, and Thaler, 1990), the endowment effect postulates that individuals are more likely to overvalue objects they own. Relinquishing the object often requires compensation that is greater than the object's actual value (Thaler, 1980). Moreover, individuals attempting to buy the object will value it considerably lower than the seller since the pleasure from gaining an object is less than the pain from losing that same object. Empirically, a large body of research has shown that sellers will consistently demand more for an item than a buyer is willing to pay for it (Kahneman, Knetsch, and Thaler, 1990; Knetsch, 1989).

Despite the robustness of the effect, a number of factors have been shown to alter the endowment effect. For example, research on involvement (Saqib, Frohlich, and Bruning, 2010), emotions (Lerner, Small, and Loewenstein, 2004; Martinez, Zeelenberg, and Rijsman, 2011), market experience (List, 2003), and certainty (Simonson and Drolet, 2004) demonstrates the influence that characteristics of the individual can have on impacting the endowment effect. Aspects of the market structure such as anchoring points (Simonson and Drolet, 2004), reference price (Weaver and Frederick, 2012), welfare structure (Bischoff and Meckl, 2008), duration of ownership (Strahilevitz and Loewenstein, 1998), and trade structure (Purohit, 1995; Wang, Ong, and Tang, in press) have also been shown to influence the effect. Finally, aspects of the relationship between the buyer and seller have been examined by varying the relationship structure between the buyer and seller (McGraw, Tetlock, and Kristel, 2003).

However, while comprehensive in scope, this body of literature has yet to fully take into account the role that the focal object involved may have on influencing the endowment effect. One aspect of the object that warrants further examination of its influence on the endowment effect is that of product branding, and how self-congruence with the brand impacts an individual's perceptions of monetary value. Existing research on the endowment effect focuses on the object in terms of characteristics of the product but does not look at the influence that congruence with the brand may have on impacting the effect while holding the product constant. Yet research suggests that brand might be an important consideration in the valuation of an object (Keller and Lehmann, 2006) and that perceptions of self-congruence with a brand may also impact the valuation of an object (He and Mukherjee, 2007).

3. Influence of brand congruence

Self-congruence theory has been widely used to understand the relationship that an individual develops with an object or brand, by examining the degree of match/mismatch between an individual's image and the perceived image of an object (He and Mukherjee, 2007). Specifically, self-congruence has been shown to influence an individual's attitude toward the brand (Barone, Shimp,

and Sprott, 1999; Hong and Zinkhan, 1995), purchase intentions (Hong and Zinkhan, 1995), brand loyalty (Sirgy et al., 2008), satisfaction (He and Mukherjee, 2007), and perceptions of product experience (Hosany and Martin, 2012).

Thus, although research on self-congruence has demonstrated a positive relationship with judgments pertaining to a brand, no research has explicitly examined the extent to which individuals may be willing to pay more for a branded product when they have high levels of congruence with the brand. However, extant literature suggests that brand congruence may have a sufficient impact on an individual to influence monetary valuations. For example, He and Mukherjee (2007) found that individuals' level of congruence with an item impacts their self-reported perceptions of an object's overall value (as a function of quality and price). In addition, Malar and colleagues (2011) found that individuals form stronger attachments to objects that are consistent with their self-concept, and Shu and Peck (2011) suggest that emotional attachment can lead to increases in valuation of an object. Taken together, these findings suggest that self-congruence with a brand will increase the price an individual would be willing to pay to purchase a branded object as well as the price they are willing to accept to sell a branded object that they own. Specifically, self-congruence theory predicts that a brand consistent with one's self-concept adds value to the branded object such that either WTA or WTP are a function of valuation for the object as well as brand congruence. The current research demonstrates brand congruence as a factor that impacts the typical endowment effect and identifies brand as an important element in understanding equalities and inequalities in value between buyers and sellers.

Within the context of the endowment effect, these changes in valuation can be illustrated using prospect theory as shown in Fig. 1. In this figure, the solid line illustrates the endowment effect considering only the object's value, but not its brand. Here losses loom larger than gains as an objective gain will have less value than the same objective loss (Thaler, 1980).

The dashed line in Fig. 1 denotes the endowment effect considering both the object's value and its brand. Increasing congruence with the brand steepens the slope for both gains and losses due to positive psychological value gains from congruence with the brand.

$$WTA_{ij} \text{ or } WTP_{ij} = \mu + \alpha_i + \beta_j + \varepsilon_{ij} \quad (1)$$

For individual i with self-congruence j where μ is the baseline valuation, α is the effect of being a buyer or a seller and β is the effect from level of self-congruence. Thus, while the same pattern of losses looming larger than gains holds, the overall value increases for both buyers and sellers due to self-congruence with the brand.

Therefore, we posit that buyers and sellers who perceive high levels of self-congruence with the brand will value branded items more highly than buyers and sellers who perceive low levels of self-congruence with the brand (i.e., are brand incongruent). Thus,

H1: *Buyers and sellers who are congruent with a brand will set significantly higher prices than buyers and sellers who are incongruent with a brand.*

This hypothesized effect of self-congruence with the brand will additionally impact the endowment effect under specific circumstances of asymmetries in congruence between buyers and sellers. Specifically, H1 predicts that congruence with a brand will increase the valuation assigned by a congruent seller. Therefore, when comparing the price demanded by a congruent seller to that of an incongruent buyer, the endowment effect should be amplified, because the price gap between WTP and WTA will increase. Specifically, the slope of the loss curve of a congruent buyer will be even steeper relative to the gain curve of an incongruent buyer due to the positive value associated with brand congruence. Thus, congruent sellers will demand more for a branded object than incongruent buyers are willing to pay such that the difference in valuations will be greater

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