DETERMINING FAIRNESS: A COGNITIVE PROCESS OF PRICE FAIRNESS SITUATIONS

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ABSTRACT

Over the last three decades, pricing scholars have devoted a substantial amount of research to understanding what creates the perception of an unfair price. While it is important to understand what leads to an unfair price, it is equally important to understand what makes a price appear fair. Past research has noted that it is possible that fairness and unfairness are conceptually different constructs (Xia et al. 2004, Finkel 2001) and that consumers go through a series of cognitive steps to determine perceptions of fairness (Campbell 1999). It is believed that perceptions of (un)fairness are context-dependent (Hertel et al. 2002), which is why empirical study respondents have a difficult time articulating what constitutes a fair price and report such responses as *"I know it when I see it"* (Xia et al. 2004). According to Bolton et. al. (2003) fairness is defined as "a judgment of whether an outcome and/or the process to reach an outcome are reasonable, acceptable, or just." However, understanding the process that consumers go through when determining what makes a price appear fair is important for pricing managers to understand because minimizing the perceptions of unfairness, which has been empirically tested with significant results, leads to stronger levels of satisfaction and customer loyalty (Oliver 1997, Oliver and Swan 1989, Herrmann et al. 2007).

Research has shown different moderators that might affect perceptions of fairness such as: source (human vs. non-human) and emotion (Campbell 2007), pricing—both uniform and dynamic (Choi and Mattila 2009), the firm's inferred motive and reputation (Campbell 1999), knowledge of others' outcomes (Collie et al. 2002), and violation of social norms (Maxwell 1995, 1999). However, few models provide a comprehensive cognitive process of pricing (un)fairness since it appears to be heavily dependent on context-specific situations and scenario-based research techniques. Notably, many marketing researchers concentrate on the underlying principles of what makes a transaction appear unfair, rather than illustrate an expansive model that allows for both fair and unfair perceptions. It is possible that the reasons few models account for the duality of fairness and unfairness is because negative outcomes carry more weight in recall and are easier to measure in survey research (Mittal et al. 1998). The proposed conceptual model adapts the Hunt-Vitell (H-V) (1986) philosophical model of reasoned actions for assessing consumers' price fairness perceptions.

Following the H-V model (1986), consumers are often are faced with an ethical dilemma in their decision making processes (Hunt and Vasquez-Parraga 1993, Hunt and Vitell 2006, Mayo and Marks 1990) and to assess a dilemma consumers are likely to partake in two types of ideological processes: deontological and teleological evaluations. The deontological evaluation is an appraisal that is mainly concerned with the morality of the situation, regardless of the end result. It is proposed that instead of using the inherent "rightness or wrongness" of the situation as the guiding nature of the deontological evaluation, the consumer elicits a *subjective* evaluation, which determines how personally affected the consumer feels regarding the price difference. In contrast, a teleological evaluation is an appraisal where the consumer views the end result as the most important aspect of the evaluation. This evaluation type focuses on choosing the one alternative that serves the greater good for all stakeholders involved. It is proposed that instead of using an appraisal that solely looks at the end result of the situation as part of the teleological evaluation, that the consumer elicits an *objective* evaluation which allows the consumer to assess the situation from a non-biased perspective.

Additionally, the proposed model works in three stages: discovery, situational appraisal and reaction. It also incorporates moderators that are posited to affect the perceived (un)fairness of the situation and ultimate purchase intent. The moderators: personal beliefs, degree of substitution, distance of substitute, and the degree of trust with the seller are all believed to interact with the underlying subjective or objective evaluation of the situation. Depending on the magnitude of the subjective or objective evaluation, the consumer will perceive the situation as (un)fair and then decide on his purchase intent.

References Available on Request.