

EQUITY VERSUS UTILITY: THE MODERATING EFFECT OF ACQUAINTANCE

**Val Larsen, James Madison University Newell D. Wright, North
Dakota State University Joe Goodman, Illinois State University**

ABSTRACT

Utility theory and equity theory make contradictory predictions about the effects of declining costs on consumer satisfaction. In a standard economic analysis, satisfaction increases as costs fall but in an equity theoretical analysis, satisfaction decreases as costs fall when falling prices mean the consumer receives more than she gives up in exchange for a benefit. This study demonstrates that the claims of both these widely accepted theories may be valid if the effects of cost on satisfaction are moderated by degree of acquaintance with the exchange partner. Where personal acquaintance is high, the effects predicted by equity theory predominate. Where acquaintance is low, the effects predicted by utility theory predominate. Secular changes in marketing philosophy (the shift to a service dominant logic in marketing) and the growth of technologies that facilitate mass personalization (the Internet, databases, social networking) make degree of perceived acquaintance an important marketing variable. This variable is a double-edged sword that can magnify consumer responses to good/bad experiences with a business.

Price is a critically important variable for marketers (Dodds, Monroe, and Grewal 1991; Lichtenstein, Ridgway, and Netemeyer 1993). Thus, when widely cited theories make contradictory predictions on the effects of changes in price, it is imperative for researchers to empirically test the competing hypotheses to determine their relative validity. The theories that will be tested in this study are utility theory, a foundational theory in economics, and equity theory, an

important theory in social psychology. These theories make contradictory predictions about levels of consumer satisfaction with low prices, utility theory suggesting that they will yield satisfaction and equity theory that they will yield dissatisfaction. We hypothesize that their apparently contradictory predictions notwithstanding, both theories are valid, if the effects of a degree of acquaintance moderator are taken into account.

Utility Theory

From its early formulation by Say in 1803 as an inverse relationship between the demand price and the quantity demanded through its subsequent refinement by Cournot, Mill, Menger, Jevons, Walras and ultimate formalization by Marshall in 1890, the Law of Demand has been a fundamental pillar of economic analysis (Bradley 1989; Ekelund and Hébert 2002). The downward sloping trajectory of a demand curve follows from the diminishing marginal utility of each successive unit of a product that is made available for purchase and consumption.

While demand curves are often discussed as an aggregate that reflects the varying utilities that different consumers have for a product, the implications of the curve for customer satisfaction are most fully evident if we focus on the demand of an individual consumer for a particular product. As High (1994) notes in the following lucid analysis, the shape of a demand curve may be explained in terms of the decreasing personal importance of each successive use of a product as the consumer acquires additional units.

The consumer has a set of ends, denoted abstractly by the ordered set $\{e_1, e_2, e_3, \dots, e_n\}$, that can be attained only with the use of economic goods. If the consumer has only one unit of a good, x_1 , she will use it to attain her most important end, which we designate as e_1 . If she has a second unit, x_2 , she will use it to attain her next most important end, e_2 , and so on. The marginal utility of x is the importance that the consumer places on a unit of x . This importance is imputed to the good from the least-valuable end attained. For example, if the consumer has three units of x , the marginal utility is the importance the consumer attaches to e_3 because that is the end she would forego were she to lose a unit of x . (p. 89)

Each unit of the product from x_1 to x_n will have an associated and progressively lower reservation price that is a monetary measure of the maximum utility or satisfaction the consumer expects to receive from purchasing that unit of the product. Thus, the demand curve for a given product is a downward-sloping series of reservation prices for successively less personally valuable additional units of the product. The amount a consumer is willing to pay for each successive unit falls because the expected satisfaction from consuming that unit is lower than for previously acquired units.

But fortunately for the consumer, the market price for all units purchased is typically set by the marginal value of the last, least-valued unit purchased. Thus, the buyer enjoys a consumer surplus, which can be defined as the difference between the reservation price she would have been willing to pay for the first, most valuable units, and the lower actual price that she is asked to pay for those first units of the product. The lower the asking price, the greater will be the consumer surplus.

With a preference index, a tool used by economists from the 1930s on to measure the relative utility of alternative proffers (Ekelund and Hébert 2002), it is easy to demonstrate that the ordinary rational utility

maximizer will prefer to pay a lower rather than a higher price for a product, e.g., a particular make and model of an HDTV. Offered the choice of the HDTV or the HDTV and \$500, the rational consumer prefers the latter because it permits her to purchase an additional \$500 worth of satisfying goods or services in addition to the HDTV. We stipulate in our study that the make and model of the HDTV does not change with the addition/subtraction of the \$500 of cost to rule out the effects of a price/quality association that might lead the consumer to prefer the more expensive HDTV (Amaldoss and Jain 2005; Erickson and Johansson 1985).

The large marketing literature on reference prices also generally supports the common sense claim that, other things being equal, consumers prefer lower prices over higher ones. While in certain respects consumers get a fair deal when they pay their reservation price for a product and a good deal when they pay any value less than their reservation price and, therefore, receive a consumer surplus, research has demonstrated that most consumers base judgments on whether they got a good or bad deal on degree of deviation from a reference price that is typically their estimate of the market value of the product (Lowengart 2002). When the price paid is less than the expected reference price, consumers receive positive transaction value that adds to their satisfaction with the purchase. When they must pay more than the reference price, negative transaction value subtracts from their overall satisfaction with the purchase (Thaler 1985).

The preference for deviations from the reference price on the low side is limited by a boundary condition. If the deviation is extreme, consumers may refuse a proffer not because they dislike the low price per se but because they become suspicious that something must be wrong with a product that is priced so far below the expected market price (Monroe 1990; Monroe and Venkatesan 1969; Sherif and Hovland 1961). In this study, responses to prices below the reference

price are positive, so it is clear that the deviation does not fall into the social judgment theorist's latitude of rejection.

In summary, the preference, other things being equal, for lower prices over higher prices is a fundamental premise of the Law of Demand and the utility theory that undergirds neoclassical economics. Our focus, in this study, is on decision utility (the consumer's *ex ante* satisfaction with a transaction at the time of purchase) rather than on experienced utility (the consumer's *ex post* satisfaction with the product based on their experience using it) (Lévy-Garboua and Montmarquette 2007; Kahneman et al. 1997).

Equity Theory

Of much more recent vintage is equity theory (Adams 1965). Equity theory suggests that the determinant of satisfaction with an exchange is the equitableness of the transaction. Under most formulations of this theory, exchange partners are held to be maximally satisfied when the ratio of outcomes to inputs is equal for the two exchange partners. When an exchange partner gets more than she gives up (positive inequity) or gives up more than she gets (negative inequity), she is expected to be less satisfied with a transaction than if the ratio of outcomes to inputs is the same for the two exchange partners (Adams 1965; Adams and Freedman 1976).

Equity theory has been widely cited in the marketing (Boote 1998; Van Raaij and Pruyn 1999; Wangenheim and Bayón 2007; Xia, Monroe, and Cox 2004) and management (Greenberg, 1990; Taris, Kalimo, and Schaufeli 2002) literatures. In marketing where the main focus is current and potential customers, Homburg, Hoyer, and Stock (2007, p. 464) note that "there is ample evidence supporting the general proposition that equity drives satisfaction." In their study, 69 percent of the variance in customer satisfaction was explained by equity perceptions. Likewise in management where

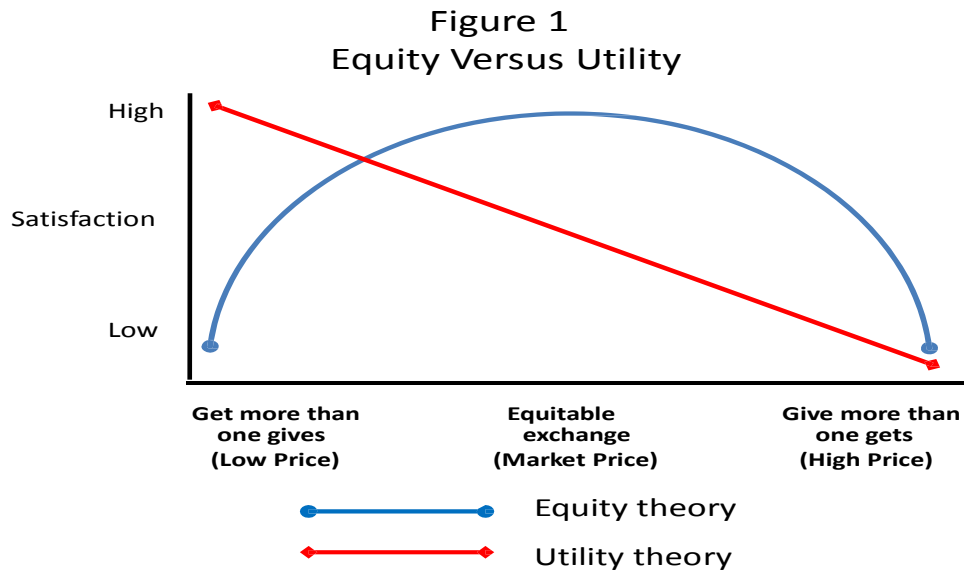
the focus is employees, it is clear that equity perceptions determine job satisfaction. For example, Dittrich and Carrell (1979) found that 58 percent of job satisfaction variance could be explained by equity perceptions, and Perry (1993) found that workers who were paid more or less than the norm experienced greater psychological stress than those who received normal pay. Arnold and Spell (2006) likewise found that employees experienced dissatisfaction when they received more compensation from their employer than was normal for someone contributing at their level. And in a study that examined equity perceptions of both employees and customers, Maxham and Netemeyer (2003) found that employee perceptions of job equity explained about a third of the variance in the equity perceptions of customers served by the employees. Customer equity perceptions, in turn, explained more than a third of the variance in measures of customer satisfaction. Thus, there is ample evidence that equity affects satisfaction, with positive and negative inequity both producing lower levels of satisfaction than is typical where exchanges are equitable.

Contradictory Implications

As Figure 1 indicates, the satisfaction implications of utility theory and equity theory are contradictory. Satisfaction is optimized in a utility theory analysis when prices are low, e.g., when the money one gives up to acquire a product has far less utility than the acquired product has. As the price for any given product falls, the consumer surplus and associated satisfaction increase (High 1994). Likewise, in Thaler's (1985) mental accounting, the more the price declines relative to the reference price (generally formulated as the perceived fair market price [Lowengart 2002]), the greater will be the positive transaction value or satisfaction the consumer experiences from getting a good deal. When, on the other hand,

consumers face a high price and pay more than the perceived fair market price, they should experience low satisfaction because in

this bad deal they must give more than they expect to give to acquire the product.



With respect to prices above the equitable or normal market price, utility theory and equity theory agree that satisfaction will be low. But the point of optimum satisfaction differs in the two theories. In utility theory satisfaction is optimized at a low price. In equity theory satisfaction is optimized at the perceived fair market price where the exchange is equitable. In an equity analysis satisfaction is expected to fall when the price is below the fair market price, such that the buyer gets a good and the seller a poor deal. Though the buyer is paying less for a benefit, she is expected to be unsatisfied because she is getting more than her due from the exchange. In short, equity theory predicts optimal customer satisfaction at the fair market price while utility theory predicts optimal satisfaction at a low price.

Acquaintance Moderator

Since the contradictory effects predicted by utility theory and by equity theory have both been observed in experimental studies (e.g. Scheer, Kumar, and

Steenkamp 2003; Perry 1993; Thaler 1985), it seems likely that, within some moderating set of boundary conditions, both theories are valid. We contend that the effects of price on satisfaction are moderated by the buyer's degree of acquaintance with the seller. Degree of acquaintance is an important social fact that catalyzes fundamentally distinct social dynamics. The importance of this relationship variable is explained by a classic distinction in sociology—the distinction Tönnies (1987/1988) makes between *Gemeinschaft* (community) and *Gesellschaft* (society) and the related distinction that Durkheim (1949) makes between mechanical and organic solidarity.

The prototypical example of *Gemeinschaft* is the family but other relatively intimate and personal associations—e.g., a club, church, or circle of friends—also tend to be *gemeinschaftlich*. This mode of social relations is characterized by a strong group orientation and powerful social mores such as an emphasis on loyalty. The institutional foundation of these relationships is relatively simple and

informal, but high levels of social intimacy and mutual social investment are typical.

The prototypical example of *Gesellschaft* is the urban marketplace, and, in particular the impersonal transactions that occur when one deals with anonymous functionaries or exchange partners—e.g., in a large scale retail establishment or on the Internet. This mode of social relation is characterized by impersonality, individual self interest, and loose or non-existent social ties. The institutional foundations of *gesellschaftlich* transactions are complex and formal. They include such things as contract law and the monetary system.

The web of social expectations and social acts is very different in a *Gemeinschaft* and a *Gesellschaft*. Expectations of special consideration and loyalty will generally be higher in *gemeinschaftlich* than in *gesellschaftlich* relationships whereas expectations of efficiency and specialization will generally be higher in the *Gesellschaft* than in the *Gemeinschaft*. Degree of acquaintance and expected social solidarity is, by definition, higher in a *Gemeinschaft* than in a *Gesellschaft*. As indicated below, the hypothesis tested in this study was that equity effects would operate more powerfully in *gemeinschaftlich* transactions where the exchange partner is well known and that utility effects would operate more powerfully in *gesellschaftlich* transactions where the exchange partner is not personally known.

A number of researchers have recognized the importance of degree of acquaintance. In a study rooted in equity theory, Lapidus and Pinkerton (1995) hypothesized that customers receiving high outcomes with low inputs would feel guilt. When the hypothesis was not supported, they speculated that “results might have been different, providing support for the guilt hypothesis, if the complaint scenarios had reflected an ongoing relationship between the buyer and seller” (p. 118), a conjecture supported by Bolting and Foreman (1989). In another equity theoretical study, Arnold and

Spell (2006) found that positive inequity (getting more than one gives) had a negative effect on employee satisfaction in companies with an open culture but no effect in companies with a closed culture. An open (comparatively *gemeinschaftlich*) culture is one in which people feel welcome and at home whereas a closed (comparatively *gesellschaftlich*) culture is one in which relationships are guarded and distant.

In another study, Steenhaut and Kenhove (2005) found that guilt feelings and opportunism varied with relationship commitment, guilt being higher and opportunism lower where exchange partners had a close relationship. Hoffman (2000) indicated that strong affective responses are more common in close, long-term relationships than in more distant and merely transactional relationships.

And focusing on an individual difference variable—interpersonal orientation—Swap and Rubin (1983) indicated that subjects high in interpersonal orientation were very sensitive to the equitableness of exchanges whereas those low in interpersonal orientation focused more narrowly on personal utility maximization. The distinction between a friend and a stranger that is used in this study is a kind of exogenous, structural manifestation of Swap and Rubin’s endogenous interpersonal orientation, interpersonal orientation being definitionally high with a friend and low with a stranger. Our research hypothesis is that this structural, exogenous distinction between a friend with whom one is well acquainted and a stranger with whom one is unacquainted will likewise activate equity or utility focused responses.

H1: Degree of acquaintance will moderate the effects of cost on satisfaction such that equity theory responses will predominate when acquaintance is high

METHOD

The subjects were 160 undergraduate business majors, 42 percent male, 58 percent female, enrolled in classes in a major mid-Atlantic university in the United States. Subjects were given extra credit for participation and were randomly assigned to one of twelve treatment groups. After signing an informed consent, subjects responded to an HDTV purchase scenario that had a 2 (know/don't know store owner) x 3 (abnormally low/normal/excessive markup) x 2 (\$10/\$100 affect of customer rating on store profits) design.

Two dependent variables were described in the scenario, both being post-purchase responses on an influential website that could affect the future success of the store that sold the HDTV. The first dependent measure was designed to tap the perceived utility of the transaction. The second was designed to tap motivation to restore equity by rewarding or punishing the store owner. After reading the scenario and responding to the two dependent measures, subjects filled out scales that measured potential covariates—altruism (Goldberg 1999), Machiavellianism (Goldberg 1999), and equity sensitivity (King and Miles 1994). They were then asked to describe the purpose of the experiment, were thanked, and dismissed.

The scenario that manipulated acquaintance and equity ran as follows. A person goes to an electronics store to purchase a high definition television. The owner (who is a personal friend in the high acquaintance condition or who the customer does not know in the low acquaintance condition) shows the customer what the store has in stock and the customer picks out and purchases a model that meets her needs. Upon returning home, the consumer visits a website that specializes in HDTVs and discovers that retailers normally mark this television model up \$250 above their cost. In the abnormally low condition, she learns that her HDTV was sold

for \$250 below the retailer's costs (so the store lost \$250 on the deal or \$500 if normal markup is included and the buyer saved \$500). In the normal condition, her television was marked up the usual \$250. In the excessive markup condition, her HDTV was marked up \$750 (costing the buyer an extra \$500 and gaining for the retailer \$500 more than is normal).

Subjects were then told that the website where the consumer learned that \$250 is the normal markup allows consumers to rate retailers based on their satisfaction with them. Subjects were asked to rate the consumer's likely degree of satisfaction using three semantic differential scales anchored by Very Satisfied/Very Dissatisfied, Dislike Very Much/Like Very Much, and Excellent/Awful. (This 3-item satisfaction scale—the first of the two dependent measures—was unidimensional and reliable, with a Cronbach's alpha of .94.)

Subjects were then informed that while all website ratings of transactions have a small effect on future store sales, weighted ratings have a big effect. Ratings are weighted based on how large of a contribution the rater makes to maintaining the website. The larger the rater's contribution, the bigger the effect of her rating will be on future store sales. Research has shown, subjects were informed, that for each dollar the rater contributes, the rated store gains \$10/\$100 in profit (if the rater gave it a positive rating) and loses \$10/\$100 in profit (if the rater gave it a negative rating). Subjects are then asked how much they think the rater will spend to have her rating weighted more heavily so that it will more strongly influence store sales. The amount spent was the second dependent measure.

Like gender which normally does not have an accompanying manipulation check when manipulated in scenarios, all the independent variables in this study were objective and unambiguous. Chen, Chen, and Portnoy (2009) demonstrated that the friend/stranger manipulation is unambiguous, making a manipulation check redundant. The

low/normal/high markup and \$10/\$100 profit manipulations were also objective and unambiguous, so manipulation checks were judged to be unnecessary. And, since no subject guessed the purpose of the study, all were retained in the analysis of results.

RESULTS

In statistical tests, gender and the \$10/\$100 variable were found to have no significant effect on the dependent variables. The altruism, Machiavellianism, and equity sensitivity covariates likewise had no significant effect, so all were dropped from the analysis. In the residual 2 (know/don't know store owner) x 3 (abnormally low/normal/excessive markup) design, cell sizes ranged from 24 to 28 subjects per cell.

Utility Results

The first three-item satisfaction scale was designed to tap the perceived utility of the transaction for the buyer. Subjects were expected to rate the store highly if they felt they had received a good deal (even if the inequity of the exchange made them feel uncomfortably indebted to the seller) because a negative rating for a store that had given the customer a good deal would only compound the inequity of the exchange. In giving it (if

they felt discomfort), buyers would further injure the generous sellers who had given them a good deal and, thus, further imbalance the ratios of benefits to cost for the two exchange partners. So buyers' only reasonable recourse was to rate the seller highly if they felt they had received a good deal. In other words, the response frame was designed to induce subjects to report the perceived utility of the purchase independent of any dissatisfaction they might have felt due to the positive inequity of the exchange.

We can stipulate—though the actual price paid was not reported—that all the HDTVs were sold at or below the consumer's reservation price for the product. This follows from the fact that the customer chose to make the purchase which she would not have done if the price exceeded her reservation price. And not specifying the price paid minimizes the potential for confounding price/quality effects. Subjects merely know that the customer either paid the normal price for the TV or paid \$500 less or \$500 more than is normal. In other words, using the terminology of mental accounting (Thaler 1985), the website revealed either that customers had received zero transaction value or revealed that they had received \$500 of positive or \$500 of negative transaction value.

TABLE 1
Effect of Markup and Acquaintance
on Satisfaction

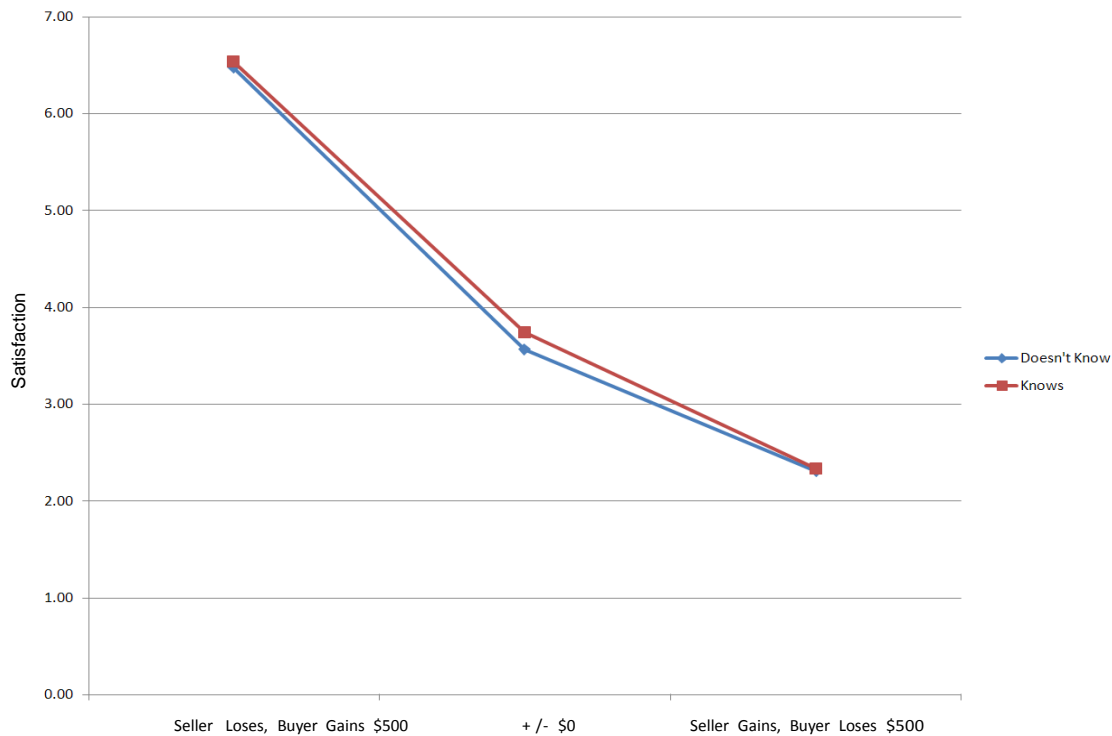
	Friend	Stranger
\$500 Less than Normal	6.54 (.18)	6.47 (.18)
Normal Price	3.74 (.18)	3.56 (.20)
\$500 More than Normal	2.33 (.18)	2.31 (.18)

Mean (SD) for 1 Dissatisfied / 7 Satisfied

The responses of the subjects to this dependent variable were consistent with utility theory. Means (and standard deviations) are reported in Table 1 and graphed in Figure 2. As utility theory predicts, satisfaction was inversely related to markup and price, being highest where they were lowest, lowest where they were highest. In a two – way ANOVA with markup and friend/stranger as independent variables and satisfaction as the dependent variable, the main effect for markup was significant ($F(2,$

$156) = 2907.9, p < .000$). This result suggests that demand will be highest when a low price produces a large consumer surplus and, thus, would seem to validate the economists' Law of Demand. This utility result is unaffected by degree of acquaintance. In the two-way ANOVA, the friend/stranger variable has no effect on satisfaction ($F(1, 156) = .333, p < .565$).

Figure 2



While these results are consistent with economic utility theory, there is an asymmetric deviation in the degree of satisfaction as consumers pay \$500 less than is normal versus \$500 more than is normal. The deviation from the normal price response is greater when the retailer sells the product at a loss than when the retailer overcharges. This effect is consistent with the expectancy/disconfirmation model (Oliver

1997), provided that consumers have asymmetrical expectations about the probability of retailers selling products below cost (perceived to be less likely) versus with excessive markup (perceived to be more likely). Given this asymmetrical expectation, the discrepancy between what is expected and what occurs would be larger in the below cost condition than in the excessive markup condition. This larger discrepancy and more

substantial disconfirmation may yield larger differences in the degree of satisfaction between the normal price and \$500 below normal than between the normal price and \$500 above the norm.

The presence of an asymmetric, nonlinear expectancy/disconfirmation effect was tested by a regression model using markup squared as the independent variable and satisfaction as the dependent variable. In

this test, the curvilinear squared predictor was significant (Markup² $t = 22.865$, $p < .000$; $R^2 = .77$). This asymmetry is consistent with the expectancy/disconfirmation model (Oliver, 1997) if consumers are pessimistic about their exchange partners and thus more surprised by generosity (selling at a loss) than by greed (excessive markups).

TABLE 2

Effect of Markup Squared on Satisfaction

	Beta	Std. Error	t - value	p - value	R ²
Markup Squared	.527	.023	22.865	.000	.77

Equity Results

Our measure of how much consumers would be willing to spend to increase the effects of their rating on store sales was designed to tap equity responses. Since the consumer already has the TV, any money spent must be counted as an additional loss from a utility point of view. Indeed, in a purely material analysis of economic utility, it

would constitute a voluntary increase in the cost of the TV and would be inconsistent with the preference demonstrated in Figure 1 for purchases that have a lower cost. Additional expenditures that affect the exchange partner's outcomes would, of course, be consistent with equity theory. Responses to this item are shown in Table 3 and are graphed in Figure 2.

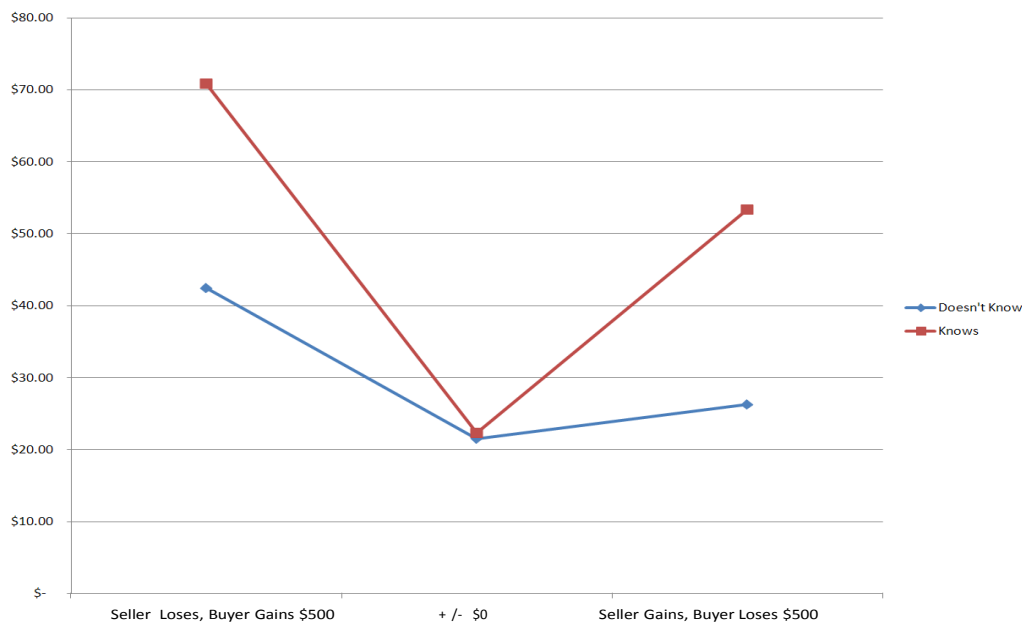
TABLE 3
Effect of Know/Don't Know and Markup on Spending

	Friend	Stranger
Sold at Loss	\$70.79 (8.14)	\$42.44 (8.14)
Normal Markup	\$22.32 (8.00)	\$21.44 (8.64)
Excessive Markup	\$53.35 (8.30)	\$26.29 (8.00)

As equity theory predicts, subjects proved most willing to spend their money to affect the sales of their exchange partner when they received an unusually good or unusually bad deal. In a linear contrast that tested the effects of normal markup against the two forms of abnormal markup (\$500 above and below the norm), the mean spending difference was significant ($t(157) = -3.55, p < .001$). Clearly, consumers are willing to spend more to restore equity when they receive a better or worse than normal

deal rather than a normal and, presumably, equitable deal. Thus, those who received a \$500 discount and rated the store positively (6.54 or 6.47, Table 1) increase the effect of their positive word-of-mouth and those who were overcharged by \$500 and rated the store negatively (2.33 or 2.31) increase the effect of their negative word-of-mouth by spending larger amounts than normal to reward or punish the store that had benefitted or harmed them.

Figure 3



However, as hypothesized, equity responses are moderated by the consumers' degree of acquaintance with their exchange partners. The linear contrast of normal markup versus abnormal (\$500 above and below the norm) is significant when the consumer knows the store owner ($t(78) = 3.50, p < .001$) but is not significant when the consumer does not know the store owner ($t(76) = 1.52, p < .134$). To be sure, the pattern of the means is consistent with an equity theory response even in the *gesellschaftlich* low acquaintance condition. However, the response is much stronger and is statistically significant only in the *gemeinschaftlich* high acquaintance condition. It is evident that degree of acquaintance does moderate equity responses and that H1 is, thus, supported.

It is also evident that there is a baseline willingness to provide feedback on performance that is not consistent with pure materialistic utility maximization that focuses on cost minimization. Even in the normal markup condition where there is no positive or negative inequity and no incentive to rebalance accounts by rewarding or punishing the exchange partner, contributions to the website differ significantly from zero. A one – sample *t* – test using the normal markup responses only and 0 as the test value shows that consumers are inclined to provide a measure of performance feedback regardless of the equity condition ($M = 21.91, t(51) = 4.980, p < .000$). So even in the least evocative conditions, a degree of social response will occur. It is evident that human beings are fundamentally and robustly social. Exhibiting pro-social behavior, they tend to altruistically expend resources to provide valuable post hoc feedback to fellow consumers.

DISCUSSION

The simultaneous existence of equity and utility theoretical responses is, perhaps,

unsurprising in a social species that has historically been obliged both to leverage the power of groups and to optimize its use of scarce natural resources in order to survive. For such a species, both equity sensitivity (which enhances survivability in the social domain) and ability to maximize the efficient use of natural resources (which enhances survivability in the material domain) are adaptive.

Equity sensitivity is adaptive because it preserves necessary group cohesion, giving all members of the clan a stake in maintaining the group membership that improves each individual's probability of surviving (Glasse 1959). Where group membership is necessary for survival, discomfort with positive inequity may protect one from resentments and jealousies that could provoke violence or result in expulsion from the group, either of which would endanger the continued existence of the person who got a temporary advantage from receiving from the group more than he or she contributes to it. But the ability to maximize utility is also adaptive because it ensures that scarce resources will be devoted to their most survival-relevant use rather than being squandered on some less important use that does not enhance individual or group survival (High 1994).

The degree of acquaintance moderator may function as it does because some relationships are more inherently social than others. On the continuum that ranges from the most intensively *gemeinschaftlich* of relationships (e.g., the family) to the most *gesellschaftlich* of relationships (e.g., one-time online transactional exchanges with distant foreigners), the relationship may become progressively less akin to that between a person and his clan or tribe and more akin to an impersonal, purely utilitarian interaction with the natural world. It is, thus, unsurprising that the impulse to expend resources to balance what is given and what is received in exchanges diminishes as the relationship becomes more distant. In effect, the social dimension of exchanges gradually

diminishes as exchanges become more *gesellschaftlich*, making utility maximization a more predominant consideration in exchanges between distant strangers than it is in ongoing exchanges with family or friends.

But while a diminishing degree of acquaintance attenuates the power of the social response, there remains a residual echo of the *gemeinschaftlich* pattern in our interactions with strangers (i.e., while it is flatter, the Does Not Know Store Owner line in Figure 2 has the same basic U shape as the Knows Store Owner line). And as the *t* – test against a 0 mean indicates, even in the most equitable exchange condition, people voluntarily expend resources to provide social feedback although it reduces their material gain.

Turning to the practical implications of these findings, they provide a theoretical foundation for understanding how motivational and economic dynamics differ for relational versus transactional exchanges. In transactional exchanges (Houston and Gassenheimer 1987; Webster 1992), the kind of price minimization posited by utility theory may be the driving goal of the buyer since the mix of costs and benefits to buyer and seller will be unlikely to affect the possibility of entering into future exchanges. This dynamic is likely to predominate in spot markets and other venues where products are commoditized and where personal acquaintance with exchange partners is limited or nil, e.g., in the market for fast moving consumer goods (Rao and Perry 2002).

Relational exchanges are more complicated. While it is widely believed that sellers benefit when customers feel personally connected to a company or its brand (Mogilner and Aaker 2009), this study suggests that these feelings of intimacy may be a double-edged sword. The more connected consumers feel, the more motivated they may be to promote the prosperity of the company when they feel they have received an outsized benefit, but consumers who feel a personal connection

may, likewise, be more motivated to seek to damage the firm or brand when they feel they have received less than their due in a transaction.

Thus, as the perceived relationship between a business and its customers becomes more intimate, both the opportunities and the risks the business faces will increase. It will, thus, be important to develop improved mechanisms for measuring perceived exchange inequity as the intimacy of firms and their customers increase.

While this study explored the effects of acquaintance and equity in a business to consumer context, a domain in which database and internet marketing are facilitating an increase in relationship marketing (DeTienne and Thompson 1996), the findings are likely to be equally or more applicable in business to business contexts. Personal relationships generally play a bigger role in business to business transactions than they do in business to consumer transactions since the higher value of products sold better supports the higher cost of personal sales calls and the maintenance of an ongoing personal relationship between seller and buyer. Future research might further explore the applicability of these findings in business to business markets.

LIMITATIONS

We conclude by noting a limitation of our study. Kahneman (2000) has identified potential problems that arise from focusing on decision utility as we do in this paper rather than on expected utility. While we do not believe those concerns substantially affect our conclusions, readers will benefit from perusing his discussion of the potential problem.

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Send correspondence regarding this article to:

Val Larsen
Associate Professor of Marketing
MSC 0205
James Madison University
Harrisonburg, VA 22807
larsenwv@jmu.edu
(540) 810-3753
