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# **A Conceptual Framework of Perceived Price Fairness : An Attributional Approach**

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## **ABSTRACT**

*The purpose of this study was to propose a conceptual framework of perceived price fairness for tourism purchases. The proposed framework is theoretically based on Weiner's (1980) attribution theory, which has not been largely applied in price literature regardless of its potential theoretical importance. Thus, it is hoped that this framework will contribute to understanding how tourists perceive price increases or extra charges, and help to establish appropriate marketing strategies related to consumers' perceptions of price (un)fairness. In order to empirically test the propositions formulated by the model, a methodological approach is also suggested. Accordingly, it is anticipated that further empirical research will be able to enhance the theoretical credibility of this conceptual model. It is further believed that understanding how perceived price fairness influences tourists behavior, depending on their inferences, will also provide practical implications. For instance, when suppliers encounter inevitable price increases, they could utilize a marketing strategy based on this theoretical understanding and its empirical results to mitigate consumer's negative reactions*

## **INTRODUCTION**

Not surprisingly, price is one of the most critical attributes in buying products or services. Numerous researchers in marketing, management, and economics have thus studied price from a managerial, behavioral, and/or quantitative perspective. Despite being an important indicator influencing consumer decision-making and buying behavior, price fairness has just recently become one of the emerging agendas in price literature (Bolton, Warlop, & Alba, 2003). Few studies on price fairness have been found in the tourism literature as well, and rather, many tourism and hospitality studies have mainly paid attention to pricing strategy from a managerial perspective (e.g. yield management). Given the fact that tourism is one of the most price non-transparent industries (e.g. dynamic pricing of airlines, car rentals, and hotels) (Kimes & Wirtz, 2003; Maxwell, 2008), it would seem that price fairness perception should be examined in relation to tourism. The study of price fairness in tourism is also justified by previous findings that have revealed that people are more likely to perceive price unfairness toward services than products.

Thus, the main objective of this study is to propose a conceptual framework of perceived price fairness for tourism purchases. This framework will hopefully contribute to understanding how tourists perceive price increases or extra charges, and help to establish appropriate marketing strategies related to consumers' perceptions of price (un)fairness. Although some researchers have attempted to develop conceptual frameworks of price fairness (Diller, 2008; Xia, Monroe, & Cox, 2004), what is different from prior research is that the framework of the current study coped with price fairness from an attribution perspective and investigated the mediating role of distributive and procedural justices. In particular, it is anticipated that the multi-dimensionality of causal attribution can be further tested using this conceptual framework.

## **LITERATURE REVIEW**

### ***Price fairness***

Price fairness perception is defined as “*a judgment of whether an outcome and/or the process to reach an outcome are reasonable, acceptable, or just*” (Xia, et al., 2004, p. 1). The stream of price perception studies is grounded in subjective and psychological dimensions from a consumer behavior perspective, which is distinguished from numerous price studies emphasizing sellers' profit maximizing from managerial and/or quantitative perspectives (e.g. pricing strategy and price modeling) (Monroe, 1973; Xia, et al., 2004). In one of the most cited papers in this area, Xia et al. (2004) proposed a conceptual framework of perceived price fairness derived from a literature review on price fairness over the last two decades (See more in Xia et al. 2004's appendix: summary of research). The conceptual framework explains that a couple of variables including price comparison, previous experiences, buyers' beliefs, and attributions of responsibility could be predictors of perceived price fairness, and that two dimensional price fairness perception (cognitive and affective) leads to reactions throughout mediators including: perceived value, negative emotions, and relative power. In addition to the Xia et al.' model, a number of researchers have demonstrated that comparisons to price outcomes (e.g. internal or/and external reference price) influence consumers' emotional responses, cognitive judgments, and further their own actions toward sellers. However, although the concept of price fairness pays attention to two dimensions of a judgment – a price outcome and the process to reach the outcome (Bolton, et al., 2003), few attempts have been made to investigate how the processes to reach an outcome is related to price perception and its consequences (Martin, Ponder, & Lueg, 2008).

### ***Distributive and procedural price fairness***

In the conceptual framework proposed in this research, the concept of price fairness encompasses two dimensions: distributive price fairness representing price outcome and procedural price fairness emphasizing the price setting process. These notions of fairness are derived from social justice theories. While distributive justice is related to outcomes distribution and allocations (Walster, Walster, & Berschied, 1978), procedural justice pertains to a process used to determine the outcome's distribution and allocations (Aryee, Budhwar, & Chen, 2002; Gilovich, Keltner, & Nisbett, 2006). Theoretically, the concept of distributive justice is rooted in equity theory (Adams, 1965), and the concept of procedural justice is grounded in Thibaut and Walker's theory of procedure (Lind & Tyler, 1988). Distributive fairness is associated with evaluations of distributive outcome (Rutte & Messick, 1995), and includes three principles: equity, equality, and need

(Adams, 1965; Deutsch, 1975; Seiders & Berry, 1998). While equality refers to the equal distribution or opportunity regardless of one's efforts or contribution, equity primarily depends on the amount of one's inputs. On the other hand, need-based distributive rule proposes that outcomes should be distributed based on what one needs. In contrast to distributive fairness, procedural fairness is related to the process and methods to reach outcomes (Leventhal, 1980; Lind & Tyler, 1988). Specifically, the notion of distributive justice is related to whether individual inputs match their outputs (Walster, et al., 1978). However, the presence of formal procedures for judgments per se has been found to have a significant impact on forming procedural justice (Aryee, et al., 2002).

### ***Attribution theory***

It has been argued that perceptions of justice/fairness are fundamentally based on attribution of cause and responsibility (Cohen, 1982). By pointing out that "understanding a person's perceptions of justice may require an understanding of his or her attributions of cause and responsibility" (p.152), Cohen (1982) introduced an attributional perspective to understand individual perceived fairness. Nonetheless, not many price fairness studies have applied attribution theories into their conceptual models (Diller, 2008). Recently, while Xia et al. (2004) stated that attribution theory needs to be dealt with as one of the theoretical foundations in price fairness literature and Maxwell (2008) also emphasized the importance of attribution theory as one of the theoretical perspectives to price fairness, only a few researchers have empirically tested attribution-based models (Campbell, 1999; Vaidyanathan & Aggarwal, 2003).

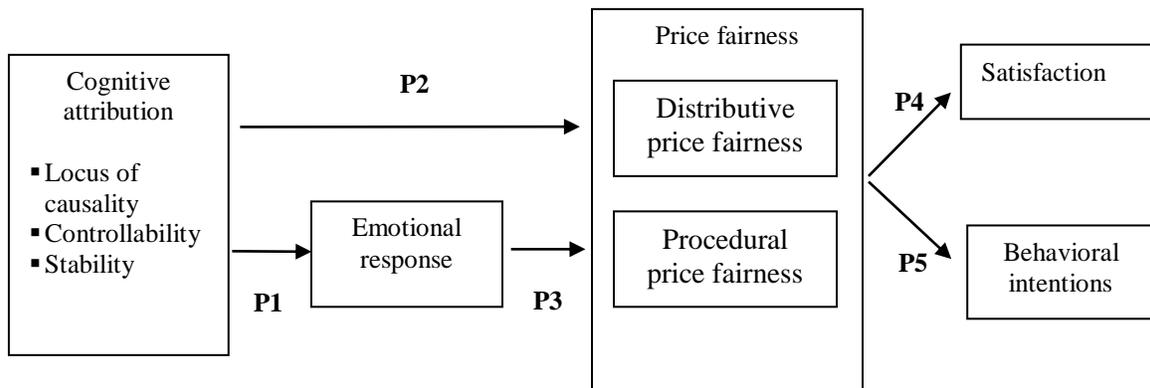
Vaidyanathan and Aggarwal (2003) argued that the dual entitlement (DE) principle, which has been a fundamental principle for explaining how people perceive price fairness, has limitations. Specifically, they argued that although DE claims that cost-justified price increases should be perceived to be fair, it does not always occur in real life (Vaidyanathan & Aggarwal, 2003). This is consistent with other research findings. With the use of focus group interviews, Maxwell (2008) also demonstrated that customers no longer agree that the increased cost of supplies is uncontrollable, but, instead, they believe that the cost control is producers' responsibility in the current economic environment. Vaidyanathan and Aggarwal (2003) therefore introduced attribution theory to compensate for the shortcomings of the DE principle, and argued that an attributional approach would be useful for understanding dynamics of price fairness perception.

Accordingly, Weiner's (1980) attribution model was fundamentally applied to the conceptual model development of this paper. Weiner (1980) proposed an attribution model called CEAM (Cognitive attribution – Emotion – Action Model). This model explains that an individual's cognitive attribution influences his or her behavior through emotional response (Weiner, 1980). More specifically, when people encounter certain kinds of events, they infer the cause(s) of the event, and then, depending on how the causes are attributed, they have different kinds of emotional responses which lead to how they act toward the events. For instance, when people are asked to lend their class notes, a judgment of help will be made in line with cognitive attribution. If the causes of need are perceived as internal and controllable factors (e.g. the borrower's lack of effort), people are likely to perceive negative affects and give rise to avoidance behavior. On the

other hand, if the causes of need are believed to be external and uncontrollable factors (e.g. ability or instructor problems), then individuals are more likely to provide assistance and give positive affect. Although the initial context in which this model fits was individual's helping behavior, this attribution-based model has been applied to diverse disciplines and contexts.

Weiner (1980) also argued that observed actions are attributed on the basis of three dimensions: locus of causality, controllability, and temporal stability. Locus of causality pertains to whether the cause of the action is internal or external to the actor. Vaidyanathan and Aggarwal (2003) stated that “the locus is determined based on who is responsible for a given action” (p.454). Controllability refers to what extent the cause is subject to personal influence. Specifically, if an action was unavoidable, it is more likely to be perceived as uncontrollable. Controllability is therefore determined by examining “if the actor could have done otherwise” (Vaidyanathan & Aggarwal, 2003, p. 454). Finally, stability is related to whether the cause is perceived as a temporal or permanent phenomenon. It is important to note that consumers infer the cause(s) of an action or an event on the basis of any or all attributional dimensions. In addition, depending on the understanding of three dimensions such as locus of causality, controllability, and temporal stability, outcome evaluation generates positive or negative emotion (Weiner, 1985), which, in turn, is associated with behavioral intentions (Vaidyanathan & Aggarwal, 2003).

Based on the literature review on price fairness and the attribution theory, Figure 1 illustrates the current studies proposed conceptual framework. The following propositions were also proposed.



**Figure 1. A conceptual framework of perceived price fairness**

- P1:** Cognitive attribution influences emotional response such that, when consumers infer that a tourism provider has a negative motive to increase prices or charge extra fees, they feel distress or furthermore anger toward the company.
- P2:** Cognitive attribution influences distributive and procedural price fairness.
- P3:** Emotional response to price influences distributive and procedural price fairness.

### ***Satisfaction and behavioral intention***

Previous research has also investigated the relationship between price fairness perception and satisfaction and behavioral intention. Specifically, it has been argued that perceptions of price fairness are associated with customer satisfaction (Herrmann, Xia, Monroe, & Huber, 2007; Martin-Consuegra, Molina, & Esteban, 2007; Oliver & Swan, 1989), and perceptions of price fairness also influence behavioral intentions (Campbell, 1999). The following propositions were therefore also proposed.

**P4:** Distributive and procedural price fairness influence satisfaction.

**P5:** Distributive and procedural price fairness influence behavioral intentions.

### **APPLICATION OF RESULTS AND CONCLUSIONS**

In sum, this study gave insights to understand how cognitive attribution influences tourists' behavioral intentions and satisfaction via emotional response and price fairness. In tourism, price perception has been usually researched in terms of the price – quality – value framework (Petrick, 2004). The examination of price fairness is conceived as a way to extend the concept of perceived price because fairness is believed to be included in the multi-dimensions of perceived price. Although a few hospitality studies have recently began to emphasize price fairness in hotel pricing (e.g. Choi & Mattila, 2004; Oh, 2003; Wirtz & Kimes, 2007), price fairness has been neglected in comparison to several other price-related variables such as pricing strategy and perceived price. Thus, this kind of research, based on mature social psychological theory, is believed to build upon the theoretical discourse on tourism pricing literature. In addition, the conceptual framework of this study provides future empirical research direction since the attributional approach to price fairness, the application of the procedural justice concept, and the examination of multi-dimensionality using non-experimental research have rarely been studied in spite of the expected contributions of price perception research.

For further research, it is apparent that the propositions in the conceptual model need to be empirically tested. In the empirical research, each construct could be measured with multiple items. For example, cognitive attribution can be measured with the Causal Dimension Scale (CDS) which has been developed to measure how individuals infer causes of an event (Russell, 1982), and emotional response can be measured by multiple items which have been frequently used in related contexts (Folkes, Koletsky, & Graham, 1987; Petrick, 2004). SEM (Structural Equation Modeling) can be used as an appropriate statistical technique since there are multiple latent variables some of which mediate other variables in inferred causal relationship. Some previous experimental studies have not adequately examined the multi-dimensionality of attribution causality due to the manipulation difficulty (e.g. Vaidyanathan & Aggarwal, 2003). Furthermore, multiple-group invariance tests could be conducted to examine between-group differences in the hypothesized model. For instance, two groups could be divided in terms of the frequency of flight trips. The 'high flight group' indicates individuals who have frequently taken flights over a two year span. This passenger group is therefore believed to be more familiar with pricing mechanism in the airline industry, and accordingly tend to be more tolerant to unexpected extra charges in flights than the 'low flight group' that has flown

less frequently. It is anticipated that the different degree of the two groups' familiarity will lead to variant emotional response and behavior intentions across two groups

Understanding how perceived price fairness influences tourists behavior depending on their inferences should also provide practical implications. For example, remedies as to how tourism providers persuade tourists with regard to uncontrollable, but influential price changes could be provided. In the summer of 2008, the press reported that the increase in gas prices would have a negative impact on the tourism industry by surging transportation costs. Travel experts and researchers also anticipated that tourists were more concerned about travel costs, and consequently, would return to local destinations or even abandon their plans to visit originally planned destinations (Keen, 2008). However, consumers may not attribute unexpected gas price change to tourism providers, but to external social economic factors that are not controllable by private companies. In other words, individuals do not necessarily blame increases in travel costs toward tourism providers, and instead, if tourists infer the causes of travel-related price surges to external and uncontrollable factors, a price change might not be an obstacle to maintaining their initial plans. Therefore, when suppliers encounter inevitable price increases, they could utilize a marketing strategy based on this theoretical understanding and its empirical results to mitigate consumer's negative reactions.

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