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Fairness perceptions and observed consumer behavior: Results of a partial observability model

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Abstract

The present study aims at revealing the possible difference between thresholds of fairness and fairness evaluations. Thresholds of fairness are used to indicate the point at which a decision to shop becomes positive. Fairness evaluations refer to price fairness and service fairness judgments that the consumers make. Analysis indicates that fairness evaluations affect both the decision to shop and the decision regarding the monetary value of a specific transaction. Thus, threshold levels of fairness might be empirically approximated through the observed levels of expenditures. However, these thresholds do not necessarily coincide with consumers' fairness perceptions.

JEL classification: D11; D12

Keywords: Fairness; Price; Service; Consumer behavior; Expenditures

1. Introduction

Research along the economic psychology strand indicates that human values and constructs underlie individuals' transactions (Tversky and Kahneman, 1986). One of the most pervasive notions drawing from this strand of research relates to individuals' perceptions of fairness. The latter is widely acknowledged as a construct underlying observed economic outcomes (Rabin, 1993; Carpenter, 2003). Economic theory has come to acknowledge the role of fairness perceptions in human decision-making (Rabin, 1993; Karni and Safra, 2002). However, research regarding the effect of fairness perceptions upon consumers' levels of expenditures is yet limited. The present

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study analyzes the non-linear effects of fairness perceptions by incorporating fairness into a typical consumers' expenditures function. Research in this direction might enhance our knowledge and understanding of the imprints underlying an observed economic outcome.

More specifically, the present study analyzes the role of fairness perceptions in the formation of consumers' shopping patterns. Analysis relates to identifying the role of fairness perceptions when individuals have to decide whether they will transact with a specific retailer or not. Further, it is assumed that fairness perceptions affect the monetary value of realized transactions. These two research questions are used to analyze the case where consumers patronize retail stores using their fairness perceptions as shopping criteria. Empirical analysis refers to consumers' expenditures on supermarkets. For this type of repeated purchase it can reasonably be assumed that individuals have the information that is necessary for their evaluations.

The aim of the study is in line with the argument that analysis of observed economic transactions may be expanded to include not only socio-economic indicators as suggested by mainstream economic theory but also indicators that reflect individuals' perceptions of fairness underlying plausible economic outcomes. Acknowledging individual perceptions of fairness as the consumers' mechanism for search of maximum overall value allows heterogeneity in human value constructs and beliefs to enter the analysis of consumers' behavior. In turn, the latter is in line with a number of studies urging for an inter-disciplinary approach of economic phenomena (Guerin, 2003; Foxall, 1999; Oliveira-Castro, 2003).

Mainstream microeconomic theory suggests that consumers, when having to decide upon the purchase of a composite good, maximize value by means of choosing the price/quality ratio that maximizes value for each item that is included in the composite good (Debreu, 1959). Nonetheless, analyzing consumers' expenditures with the use of the price of the good and other socio-economic variables alone generates a gap as to the effect of other critical dimensions involved in a transaction (Tversky and Kahneman, 1986; Mousavi and Garrison, 2003). The present study proposes a theoretically and methodologically informed model as a framework for empirically analyzing the effect of fairness perceptions, which underlie consumers' transactions. Fairness perceptions are viewed as a critical dimension of observed consumer behavior, and in the context of the present study their role upon consumers' supermarket expenditures is analyzed.

The empirical findings suggest that fairness perceptions affect the construction of certain fairness thresholds, which, although unobservable, might be empirically approximated by the monetary value involved in a transaction. More specifically, in the context of the present study, thresholds are assumed to represent the unobservable points at which a buying decision turns from negative to positive. If, the decision to buy is jointly determined with the decision on how much money to spend, then, observed expenditures could be viewed as an approximation of these unobservable thresholds. However, these thresholds do not necessarily coincide with individuals' evaluations of price and/or service fairness.

Under these conceptual underlyings, the present work utilizes an empirical model that allows for the identification of the factors that affect observed consumers' expenditures, while accounting for the fact that the sample of consumers is bounded to only that part that has taken the decision to shop. Empirical model results support the existence of an inter-related decision-making process. According to that process, individuals first, decide whether or not they are going to buy goods from a specific provider and then, they decide upon the amount of money to be spent during the specific transaction. Further, empirical results support the hypothesis that both these decisions are affected by individuals' perceptions of fairness underlying a particular transaction. Thus, a consumer's decision to transact with a specific provider is a complex procedure wherein the optimal amount of spending is subject to the level of fairness ascribed to a specific transaction. It follows that