



# Money isn't all that matters: The use of financial compensation and apologies to preserve relationships in the aftermath of distributive harm



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## ABSTRACT

Previous studies have shown that when a recipient suffers from financial harm, allocators can use repair strategies that address financial or relational interests to promote relationship repair. Research to date, however, has neglected to study the effects of financial and relational strategies on relationship preservation simultaneously. In the present contribution, we examine this question. Based on the equality norm, we hypothesized that a financial compensation that fails to redress the harm suffered by the recipient (i.e., undercompensation) will be less effective in preserving a relationship than a financial compensation that do redress it (i.e., equal compensation and overcompensation). Moreover, we expected that relational strategies (i.e., apologies) would promote relationship preservation in contexts where the financial compensation alone is insufficient to redress the harm to the recipient, thus in cases of undercompensation. The results of a pilot study and a lab experiment using the dictator game confirmed our hypotheses. Consequently, our studies demonstrate that even in purely economic settings, relational strategies (i.e., apologies) can facilitate relationship preservation over and above financial strategies (i.e., financial compensation).

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## 1. Introduction

In economic situations in which monetary resources have to be allocated between two or more parties, most people prefer allocations to be divided fairly (Camerer & Thaler, 1995; Handgraaf, Van Dijk, & De Cremer, 2003; Pillutla & Murnighan, 1996). One allocation norm that is particularly favored in this context is the equality norm (Handgraaf et al., 2003; Messick, 1993; Samuelson & Allison, 1994). The equality norm is a social standard that dictates an equal allocation of the resources between all the members of some specified group (Deutsch, 1975; Kahn, 1972; Lerner, 1975; Leventhal, 1976; Sampson, 1969, 1975). According to Straub and Murnighan (1995), these 50–50 offers are regarded as “perfectly fair”, because they satisfy most, if not all, criteria for fairness (see Allison & Messick, 1990; also see Pillutla & Murnighan, 1996). Consequently, allocations that meet the equality norm are associated with a range of positive consequences, such as trust (e.g., De Cremer, 2010; Desmet, De Cremer, & Van Dijk, 2011) and cooperation (e.g., Bottom, Daniels, Gibson, & Murnighan, 2002). Offers that

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violate the equality norm, however, are often perceived as unfair, and consequently may evoke a host of negative reactions, like negative emotions (e.g., anger, disappointment, sadness, and wounded pride; see Fehr & Baldwin, 1996; Jones & Burdette, 1994; Joskowicz-Jablonek & Leiser, *in press*; Pillutla & Murnighan, 1996) and behaviors (e.g., verbal aggression; see Haden & Hojjat, 2006; Ochs & Roth, 1989). One of the most important consequences of such violations is that trust in the allocating party decreases (Bottom, Eavey, & Miller, 1996; Bottom et al., 2002; De Cremer, 2010; Kim, Ferrin, Cooper, & Dirks, 2004; Schweitzer, Hershey, & Bradlow, 2006). Moreover, following interpersonal transgressions, victims often experience some motivation to seek revenge or to avoid the transgressor (i.e., transgression-related interpersonal motivations or TRIMs, see McCullough, Bellah, Kilpatrick, & Johnson, 2001; McCullough, Fincham, & Tsang, 2003; McCullough & Hoyt, 2002; McCullough, Root, & Cohen, 2006). Hence, violations of the equality norm may threaten the continuation of the relationship between the allocator and the recipient, thus potentially denying them the economic benefits of future cooperation.

For this reason, it is important that the allocator reduces negative reactions and promotes the continuation of the relationship after unfair resource allocations. In this respect, it is important that people also possess cognitive forgiveness mechanisms designed to change vengeful motivations and promote the restoration of relationships (Burnette, McCullough, Van Tongeren, & Davis, 2012). When victims forgive, they become less avoidant, less vengeful, and more benevolent towards the transgressor (McCullough et al., 2006). Previous studies have identified several factors that may promote forgiveness (e.g., high relationship value and low exploitation risk; see Burnette et al., 2012). Particularly interesting, however, are positive actions that transgressors can employ to promote forgiveness (see Jones & Davis, 1965; McCullough, 2000; McCullough et al., 1998; Ristovski & Wertheim, 2005; Tabak, McCullough, Luna, Bono, & Berry, 2012). In the context of financial exchanges, one prominent response is to offer a financial compensation (e.g., Desmet et al., 2011). By providing financial compensation, the transgressor addresses his or her misbehavior by returning a portion of the resources to the recipient, thereby reducing or undoing the financial damage that was sustained through the transgression. Because concerns about the outcome dominate decisions in economic decision making situations (Camerer, 1995), compensating the recipient may promote the continuation of the relationship (De Cremer, 2010; Desmet et al., 2011). Nevertheless, some scholars have argued that financial compensation alone may not be sufficient to restore the relationship (e.g., see Okimoto & Tyler, 2007). Specifically, as unfair allocations constitute a violation of the norms of interpersonal trust and fairness, responses that address these relational aspects of the transgression may also be required (Tyler, Boeckmann, Smith, & Huo, 1997). One such response is to apologize for the harm. Apologies communicate that the transgressor feels remorse and is willing to take responsibility for maintaining the relationship (Scher & Darley, 1997). In this way, apologies constitute a non-financial means of addressing transgressions (e.g., Kim, Dirks, & Cooper, 2009; Lazare, 2004) that satisfies relational concerns by affirming the victim's social standing and respect for the victim (Barclay & Skarlicki, 2008).

So far, little research has investigated the impact of financial compensation on the restoration of relationships (De Cremer, 2010; Desmet et al., 2011). Moreover, hardly any research has addressed the relationship between financial and relational responses to fairness violations. In the current studies, we focus on financial compensation and apologies, and compare their effectiveness as a means to facilitate relationship preservation in the aftermath of distributive harm. When a transgression has been made and a compensation or an apology is offered, victims may choose to continue or discontinue their relationship with the transgressor; therefore, we will focus on relationship preservation as the dependent variable.

### 1.1. Research aims

In the present contribution, we aim to address two major questions. First, we aim to investigate the effectiveness of financial compensation as a means to preserve a relationship after an unfair allocation of resources. Previous research has provided some indication that financial compensation may be a useful way to repair relationships (Desmet et al., 2011); however, it is unclear how the amount of compensation may affect its effectiveness. To determine the conditions that are necessary for compensation to be effective, we directly compare the effectiveness of three levels of compensation: undercompensation (i.e., compensation that reduces the inequality of the allocation but fails to restore equality), equal compensation (i.e., compensation that returns sufficient resources to restore equality), and overcompensation (i.e., compensation that not only restores equality but exceeds it, resulting in an outcome that is more favorable to the victim than to the offender). Secondly, we examine when relational responses may be more effective than responses that directly address the financial aspects of transgressions in promoting willingness to continue the relationship with the transgressor. More specifically, we suggest that relational restoration responses, such as apologies, may be particularly helpful in preserving relationships in situations where the transgressors are unable or unwilling to fully compensate victims for the financial harm inflicted by their transgressions (i.e., in cases of undercompensation).

### 1.2. Financial compensation: An economic perspective

Financial interests dominate in decision-making situations (Camerer, 1995). Moreover, some scholars have argued that in economic exchanges, the continuation of a relationship between the parties involved is driven primarily by a concern for tangible outcomes (e.g., see Lewicki, Wiethoff, & Tomlinson, 2005). Consequently, financial compensation should facilitate the preservation of a relationship because it directly addresses these financial interests.

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