



ASSOCIATION FOR CONSUMER RESEARCH

Labovitz School of Business & Economics, University of Minnesota Duluth, 11 E. Superior Street, Suite 210, Duluth, MN 55802

When Losses Loom Even Larger: the Moderating Role of Relationship Norms

Pankaj Aggarwal, University of Toronto

Meng Zhang, University of Toronto

Title: When Losses Loom Even Larger: The Moderating Role of Relationship Norms
Authors' names: Pankaj Aggarwal, University of Toronto
Meng Zhang, University of Toronto
Abstract: People are loss averse when their pain of losing something exceeds their joy of gaining it. This research proposes a moderator of loss aversion: the type of relationship norms salient at the time the loss or gain is experienced. We suggest that norms of communal relationship (based on concern for the partner) relative to an exchange relationship (based on quid pro quo) lead to greater loss aversion. Across three studies, relationship norms were both measured and manipulated. Support for the thesis is provided by assessing the degree of loss aversion using the typical endowment effect and gambling tasks. (98 words)

[to cite]:

Pankaj Aggarwal and Meng Zhang (2006) , "When Losses Loom Even Larger: the Moderating Role of Relationship Norms", in NA - Advances in Consumer Research Volume 33, eds. Connie Pechmann and Linda Price, Duluth, MN : Association for Consumer Research, Pages: 115-116.

[url]:

<http://www.acrwebsite.org/volumes/12456/volumes/v33/NA-33>

[copyright notice]:

This work is copyrighted by The Association for Consumer Research. For permission to copy or use this work in whole or in part, please contact the Copyright Clearance Center at <http://www.copyright.com/>.

When Losses Loom Even Larger: The Moderating Role of Relationship Norms

Pankaj Aggarwal, University of Toronto
Meng Zhang, University of Toronto

EXTENDED ABSTRACT

Prospect theory states that people interpret outcomes not as end-states but as gains and losses relative to a reference point. Removing a good from the endowment reflects a loss while adding the same good (to an endowment without it) reflects a gain. Furthermore, the value function for losses is steeper than the value function for gains, $v(x) < -v(-x)$, where v is the value of x . As such, losses loom larger than gains resulting in people generally being averse to losses (Kahneman and Tversky 1979). Thaler (1980) termed this increased value of a good when it becomes part of the individual's endowment the endowment effect. Recent research has identified factors that moderate the strength of the loss aversion and endowment effect, for example, source dependence (Loewenstein and Issacharoff 1994), transaction demand (Mandel 2002), and symbolic value of products (McGraw, Tetlock, and Kristel 2003). The present research extends and proposes one other potential moderator of loss aversion: the type of relationship that consumers form with the product.

A growing body of literature in marketing has drawn upon social psychology to understand consumer-brand relationships, and has noted that people differ in how they relate to brands (Fournier, 1998; Muniz, Jr., & O'Guinn, 2001). In particular, Aggarwal (2004) finds that consumers use norms of relationship as a lens to evaluate a brand: consumers' evaluations differ depending on the type of their relationship with the brand. Two types of relationships are examined: *exchange* relationships in which people provide benefits to others to get something back from them; and *communal* relationships in which benefits are given to take care of others' needs and to demonstrate concern for their well being (Clark and Mills 1993).

In this research, we propose that the distinctive norms of exchange and communal relationships will also lead consumers to demonstrate different magnitudes of loss aversion. Norms of a communal relationship, relative to those of an exchange relationship, will result in a stronger loss aversion. Two reasons argue for this hypothesis. First, relationship norms lead consumers to treat gains and losses differently. Norms of exchange relationship suggest that people be attentive to the net balance of inputs and output in the relationship. This means that people are more likely to compute the *net* of gains and losses. Given that the value function of losses is steeper than that of gains, aggregating losses with gains is likely to result in the subsequent behavior being consistent with lower loss aversion levels. Second, different relationship norms may lead to the experience of loss being different for the two sets of consumers. When communal norms are salient the endowed option is akin to a friend or a family member and hence more likely to be incorporated into the consumer's extended self (Belk 1988). Due to self-enhancing bias that leads to enhanced evaluation of others with whom people have an association (Beggan 1992), an endowed product is likely to be enhanced in valuation more in a communal relationship. Furthermore, since people in a close relationship tend to devalue alternatives relative to their existing option (Johnson and Rusbult 1989), people are likely to demand larger dollar amount (due to devaluing of the alternative—the monetary value) to give up their current endowment.

Three studies test this overall thesis: norms of a communal relationship relative to those of an exchange relationship will make

consumers more loss averse. The first two studies use standard endowment effect experiments while the third study uses a more direct measure to assess participants' perceived loss aversion.

Study 1 uses students as participants and measures their relationship with the university. Participants are divided into communal and exchange groups based on a median split. Participants then go through the standard endowment effect experiment using a coffee mug with the university name and logo on it. Results show that both sets of participants show significant endowment effect. Further, even though there were no differences in their buying prices (\$4.08 vs. \$4.22), participants in the communal relationship stated a significantly larger selling price for the mug displaying stronger loss aversion than those in the exchange condition (\$9.12 vs. \$6.23).

Study 2 replicates the results of study 1 but instead of measuring the relationship norms study 2 manipulates them by using a scenario description of a social interaction. Endowment effect experiment using a plain mug conducted subsequent to this relationship manipulation shows that, as before, there were no differences in the stated buying prices of participants in the communal and exchange conditions (\$1.88 vs. \$2.04). However, loss aversion experienced by participants in the communal condition was significantly larger than that in the exchange condition, as revealed by their stated selling prices (\$5.32 vs. \$3.60).

Study 3 tests the overall hypothesis by more directly examining the participants' loss aversion coefficient. Adapting from prior research (Schmidt and Traub 2002), participants were administered two tasks that required them to provide dollar values that made two particular gambles worth playing. Greater loss aversion would suggest that participants should require greater dollar amounts to persuade them to gamble. Results show that participants in the communal condition indicated a significantly larger dollar amount (\$884) than those in the exchange condition (\$217) to play a gamble that had an equal likelihood to lose \$100. Similar results were observed for a gamble that had an equal likelihood of losing \$200 ($M_{com} = \890 vs. $M_{exch} = \$312$), further supporting the overall hypothesis. Furthermore, the three studies carefully ruled out alternative explanations like affect and perception of quality.

Our studies, to the best of our knowledge, are the first to demonstrate that mere salience of relationship norms makes consumers systematically more or less loss averse. Given that the salience of relationship norms can be influenced using different marketing tools, marketers can play a significant role in making consumers more loss averse towards their brand making them less likely to switch to competitive brands. This has huge implications on issues relating to brand loyalty—and opens up some exciting opportunities for future research.

REFERENCES

- Aggarwal, Pankaj (2004), "The Effects of Brand Relationship Norms on Consumer Attitudes and Behavior," *Journal of Consumer Research*, 31 (June), 87-101.
- Beggan, James K. (1992), "On the Social Nature of Nonsocial Perception: The Mere Ownership Effect," *Journal of Personality and Social Psychology*, 62, 229-237.
- Belk, Russell W. (1988), "Possessions and the Extended Self," *Journal of Consumer Research*, 15 (September), 139-68.

- Clark, Margaret S. and Judson Mills (1993), "The Difference Between Communal and Exchange Relationship: What It Is and Is Not," *Personality and Social Psychology Bulletin*, 19 (December), 684-691.
- Fournier, Susan (1998), "Consumers and Their Brands: Developing Relationship Theory in Consumer Research," *Journal of Consumer Research*, 24 (March), 343-373.
- Johnson, Dennis J. and Caryl E. Rusbult (1989), "Resisting Temptation: Devaluation of Alternative Partners as a Means of Maintaining Commitment in Close Relationships," *Journal of Personality and Social Psychology*, 57 (6), 967-980.
- Kahneman, Daniel, and Amos Tversky (1979), "Prospect Theory: An Analysis of Decision under Risk," *Econometrica*, 47, 263-291.
- Loewenstein, George and Samuel Issacharoff (1994), "Source Dependence in the Valuation of Objects," *Journal of Behavior Decision Making*, 7 (September), 157-168.
- Mandel, David R. (2002), "Beyond Mere Ownership: Transaction Demand as a Moderator of the Endowment Effect," *Organizational Behavior and Human Decision Processes*, 88, 737-747.
- McGraw, Peter A., Philip E. Tetlock and Ori V. Kristel. (2003), "The Limits of Fungibility: Relational Schemata and the Value of Things," *Journal of Consumer Research*, 30 (September), 219-228.
- Muniz, Albert Jr., and Thomas C. O'Guinn (2001), "Brand Community," *Journal of Consumer Research*, 27 (March), 412-32.
- Schmidt, Ulrich and Stefan Traub (2002), "An Experimental Test of Loss aversion," *The Journal of Risk and Uncertainty*, 25 (3), 233-249.
- Thaler, Richard H. (1980), "Towards a Positive Theory of Consumer Choice," *Journal of Economic Behavior and Organization*, 1, 39-60.