The Moderating Effect of Relationship Norm Salience on Consumers’ Loss Aversion

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People are said to be loss averse when their pain of losing something exceeds their joy of gaining it. This research proposes and tests a new moderator of loss aversion: the type of relationship norms salient at the time the loss or the gain is experienced. We suggest that mere salience of the norms of a communal relationship (based on concern for the partner) relative to those of an exchange relationship (based on quid pro quo) leads to a greater degree of loss aversion. A typical endowment effect study supports our overall thesis and shows that differences across relationship norms are stronger in selling prices (willingness to accept) than in buying prices (willingness to pay).

Prospect theory proposes that people interpret outcomes not as end states but as gains and losses relative to a reference point (Kahneman and Tversky 1979; Tversky and Kahneman 1992). Removing a good from an endowment reflects a loss while adding that same good (to an endowment without it) is viewed as a gain. Further, people evaluate losses and gains differently, such that the “aggravation that one experiences in losing a sum of money appears to be greater than the pleasure associated with gaining the same amount” (Kahneman and Tversky 1979, 279). That is, people are generally loss averse. One implication of this asymmetry is that if a good is evaluated as a loss when it is given up and as a gain when it is acquired, loss aversion will, on average, induce a higher dollar price for sellers (owners) than for buyers (nonowners). This increase in the perceived value of a good when it becomes part of an individual’s endowment was termed the “endowment effect” by Thaler (1980).

Although research over the past 25 years has demonstrated the robustness of loss aversion, a series of articles in a recent issue of the Journal of Marketing Research proposes certain boundary conditions and moderators of this phenomenon (Ariely, Huber, and Wertenbroch 2005; Camerer 2005; Novemsky and Kahneman 2005a, 2005b). The lead paper by Novemsky and Kahneman (2005a) specifies a set of propositions underlying the endowment effect and identifies conditions when the endowment effect might be mitigated. In particular, these authors suggest that the endowment effect might be alleviated if (1) the good that is given up is similar to the one that is acquired and (2) the endowed good is intended to be exchanged. Elaborating on these ideas, Ariely et al. (2005) propose two potential moderators of loss aversion: consumers’ emotional attachment to a product and changes in the consumer’s cognitive perspective (or the frame of mind). In fact, Ariely et al. (2005) note that a difference in the cognitive perspective is the reason why intentions behind the exchange as proposed by Novemsky and Kahneman (2005a) would indeed moderate the endowment effect.

The present article builds on this recent research dialogue by empirically testing for a potential moderator. We believe that the moderating factors of loss aversion as proposed by Novemsky and Kahneman (2005a) are very incisive, such that if these factors were pushed right they would not only bound or constrain loss aversion but might even make it more pronounced. Thus, in this research, we propose and empirically test a moderating variable that exacerbates the degree of loss aversion: the norms of relationship salient at

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the time of transaction between a consumer and a product. By examining the effect of relationship norms on loss aversion, this article makes four important contributions. First, since relationship norms differ on the underlying motivation for people’s interactions with each other, our work provides important empirical evidence for the moderating role of the intentions behind the exchange as proposed by Novemsky and Kahneman (2005a), as well as for the differences in cognitive focus as proposed by Ariely et al. (2005). Second, we suggest that relationship norms, by potentially influencing one’s commitment to the partner, test the moderating effect of the emotional attachment as suggested by Ariely et al. (2005). Third, we show that the relationship norms influence not just the valuation of that object, as shown in previous research (McGraw, Tetlock, and Kristel 2003), but also the degree of loss aversion toward the object. Curiously, our results find a moderating effect of the mere salience of relationship norms, revealing the important contextual effect of relationship norms even in the absence of a real relationship—a result consistent with recent research examining the effect of arbitrary anchors on buying and selling prices (Simonson and Drolet 2004). Finally, an important contribution of this research is to use insights from social psychology to better understand the phenomenon of loss aversion, thus bridging the behavioral decision-making and social cognition research streams.

CONCEPTUAL FRAMEWORK

Prior research on interpersonal relationships has used norms of behavior to distinguish between two relationship types: exchange relationships and communal relationships (Clark and Mills 1993). In exchange relationships, the primary motivation for interacting with others is to get something from them: people are concerned with what they receive for what they give. People prefer to get comparable benefits in return for benefits given—the relationship is quid pro quo. Interactions between strangers and business partners are typical examples of exchange relationships. In contrast, in communal relationships, the motivation for interacting with others is to satisfy their needs because of a genuine concern for their well-being—people take a perspective that transcends the emphasis on self-interest alone. People prefer to get benefits that are noncomparable rather than comparable to what they give, since distinct benefits received signify a concern for their unique needs. Most family relationships and close friendships would fall into this category.

Recent research in marketing notes that consumers often form relationships with brands that mirror interpersonal relationships in a social context (Aaker, Fournier, and Brasel 2004; Fournier 1998) and use norms of these relationships as a lens to evaluate the brand and its actions (Aggarwal 2004). More recent research examining the context effect of relationship norms finds that these norms are used as a guide even in the absence of an actual relationship with the object of evaluation (Aggarwal and Law 2005). What is important is that relationship norms be salient at the time of product evaluation even if they have been made salient in an unrelated context.

Following this line of research, we propose relationship norm salience as a contextual variable that moderates the degree of people’s loss aversion. Norms are guiding principles, rules that people use to decide the “right way to behave” in a given situation. When the norms of a specific relationship are salient, they serve as a lens through which people view the world and guide their subsequent behavior. Similar to research showing the moderating influence of contextual factors such as emotions (Lerner, Small, and Loewenstein 2004) and unrelated anchors (Simonson and Drolet 2004) on the degree of loss aversion, we suggest that a mere salience of relationship norms in a person-person context will also persist beyond the priming situation and that these salient norms will be used by the people as a guide in a subsequent unrelated task, such as quoting a buying or selling price in a trade. Thus, following previous research that finds evidence of the effect of the mere salience of relationship norms on consumers’ evaluations and processing strategies (Aggarwal and Law 2005), we expect to replicate the important carryover effect of relationship norms beyond the priming context—in a task that assesses the degree of consumers’ loss aversion. Given that the effect of relationship norms is likely to be stronger if the consumers had formed a real relationship with the product being bought or sold, the mere salience of relationship norms in an unrelated context is a more conservative test of the thesis being proposed in this research. Thus, in this research, we test for the moderating effect of mere salience of relationship norms on consumers’ degree of loss aversion. In particular, we argue that communal relationship norms will make consumers more loss averse relative to exchange relationship norms for two key reasons.

First, given that consumers’ underlying intentions for interaction with the relationship partner are different in the two relationships, we suggest that relationship norms will change consumers’ cognitive perspective, resulting in gains and losses being treated differently. Because exchange relationships are quid pro quo—what is received is evaluated in terms of what one gives up—people in an exchange relationship are more concerned with the net balance of inputs and outcomes (Clark and Mills 1993). In other words, people are more likely to compute the net of gains and losses from a transaction rather than evaluating them separately as gains versus losses. And since the value function of losses is steeper than that of gains, aggregating losses with gains will result in a weaker degree of loss aversion. Prior research supports this premise by noting that a transaction mind-set is associated with a weaker endowment effect (Mandel 2002). However, matching specific inputs with subsequent outcomes violates the norms of a communal relationship. People avoid linking what they get to what they give up and shun calculating the net of gains and losses. Hence, communal norms would lead to losses being evaluated separately from gains (rather than being aggregated), resulting in consumer behavior that is consistent with a stronger de-
gree of loss aversion. Thus, in keeping with the arguments proposed by Ariely et al. (2005) about differences in cognitive perspective and those proposed by Novemsky and Kahneman (2005b) about the underlying intentions, we expect differences in consumers’ focus across the two relationships to be a key mechanism underlying the moderating effect of relationship norms on the degree of their loss aversion.

Second, relationship norms are likely to result in differences in the emotional attachment to the endowed object, engendering different experiences of the loss itself for the two sets of consumers. In particular, communal relationship norms, relative to exchange norms, are likely to inflate the level of perceived loss. When the norms of a communal relationship are salient, consumers see their relationship partner as a close friend or a family member. In fact, prior research notes that people in close relationships have a heightened positive evaluation of their partner (Martz et al. 1998) and a greater commitment to the relationship (Rusbult and Buunk 1993). Furthermore, people in committed relationships tend to put a relatively lower value on alternatives that threaten their existing relationships (Johnson and Rusbult 1989), suggesting that a much higher relative value would be sought by them to break away from their current relationship partner. Thus, when communal norms are salient, consumers are likely to show an increased fondness for, and commitment to, their current option and a resultant greater resistance to giving it up—demonstrating the relatively stronger degree of loss aversion. Further, prior work finds that a self-enhancing bias leads to a higher evaluation of one’s partners and associates (Beggan 1992). Communal norms are thus more likely to result in the endowed option (seen as a friend or family member) becoming a part of the consumer’s extended self (Belk 1988) and thereby to have an enhanced valuation. Conversely, exchange norms suggest that the endowed option will be valued primarily for what it can fetch in return. Giving up such an item may not be all that painful, resulting in a relatively lower degree of loss aversion. This suggests that, consistent with the arguments put forward by Ariely et al. (2005) about the role of emotional attachment, the experience of the loss itself will be greater in a communal than in an exchange relationship, contributing to the moderating effect of relationship norms on consumers’ degree of loss aversion. It is noteworthy that the two factors—differences in cognitive perspective and emotional attachment—both contribute toward the overall moderating effect of relationship norms on the degree of consumers’ loss aversion, and the relationship context that we have selected is unable to disentangle the relative contributions of these two factors. Future research could attempt to peel apart the individual weights of these contributory factors by designing studies that examine the two mechanisms separately.

In summary, we suggest that when the norms of a relationship are salient, they, like other contextual factors, are used as a lens to guide people’s subsequent behavior—in this case, to put a price on a product even when no real relationship exists between the consumer and that product. Specifically, we expect that the norms of a communal relative to those of an exchange relationship will result in greater loss aversion. Thus, the following hypothesis is proposed:

**H1:** When the norms of a communal rather than an exchange relationship are salient, participants will show a greater degree of loss aversion as demonstrated by the gap between their selling prices (willingness to accept, or WTA) and buying prices (willingness to pay, or WTP).

Furthermore, we argue that the effect of relationship norms would be greater on WTA than on WTP. Since the effect of relationship norms is likely to be stronger when consumers have had some opportunity to interact with the product (i.e., they already own a product) than when they have not had this opportunity (i.e., they do not own it), we expect differences in selling prices to be greater than those in buying prices when the norms of communal rather than exchange relationship are salient. In other words, we expect the difference in loss aversion across different relationship types to be driven by the selling rather than the buying prices. Prior research supports this premise by showing that selling, but not buying, prices are affected by contextual factors (e.g., source dependence; Loewenstein and Issacharoff 1994). Recent work offers an insight on why this might be the case by suggesting that sellers, in comparison to buyers, overrepresent the positive features and underrepresent the negative features associated with an item, thereby inducing greater differences in WTA than in WTP (Nayakankuppam and Mishra 2005).

Interestingly, McGraw et al. (2003) find that a communal sharing relationship, compared to a market pricing relationship (see Fiske 1992), leads to a higher selling price and a higher buying price. An increase in both WTA and WTP shows an overall higher valuation of the object but does not offer any insight about the impact of relationship type on loss aversion. Our research is distinct in that we not only propose an effect of the mere salience of relationship norms but also that differences across communal and exchange relationships will be stronger for WTA than for WTP, thereby moderating loss aversion across the two relationships, as indicated above. Thus, our second hypothesis is as follows:

**H2:** Compared to the buying prices (WTP), participants in the communal group will demand a relatively higher selling price (WTA) than those in the exchange group.

There is a key advantage to manipulating relationship norms in an unrelated context: one can compare the effect of norm salience to a baseline using a control group not exposed to any relationship manipulation. Indeed, participants in the control group who buy or sell a product are likely to see the exercise primarily as a commercial trans-
change or control conditions (, , )

H3: Participants’ selling price (WTA) in the control group will be lower than that in the communal group but no different than that in the exchange group.

THE STUDY

Design, Stimuli, and Procedure

This study was a 3 × 2 between-participants design with relationship type (communal, exchange, control) and role (seller, buyer) as the two factors. Ninety-eight undergraduate students from the University of Toronto participated in the study and were randomly assigned to different conditions. A brief description of a social interaction between two students was used to manipulate communal and exchange norms (see the appendix). To strengthen the manipulation, participants were encouraged to assume the role of the person described in the scenario and to then complete an open-ended question on how to split a lunch bill with a friend, as used in previous research (Aggarwal and Law 2005). Following this, participants completed a 13-item main manipulation check questionnaire, adapted from Clark (1986). Of these, nine items, combined into a net communal score, tapped into communal norms (enjoy responding to others’ needs, like doing things just to please others, want to do things for others, like others to respond to your needs, tell others about your troubles, best not to get involved in others’ needs [reversed], don’t bother to keep track of benefits given to others, resent if someone asked for a repayment, and resent if someone offered you repayment for a favor), and four items, combined into a net exchange score, tapped into exchange norms (like to keep things even, feel the need to pay back immediately, return something comparable if receiving something, and expect others to return things soon). All these items were asked on a seven-point scale anchored on one (not at all) and seven (almost certainly). Participants in the control condition read no scenario nor did they complete the manipulation check. In addition, as a control for the influence of affect, all participants completed the 20-item PANAS scale (Watson, Clark, and Tellegen 1988).

Participants were then taken to another room for a second, presumably unrelated, study. There, the typical endowment effect experiment was conducted (see Brookshire and Courser 1987; Kahneman, Knetsc, and Thaler 1990), with participants assuming the role of buyers or sellers of a plain coffee mug (retail value $.99 each). Buying and selling decisions were elicited for each of 24 prices, ranging from $.25 to $6.00 (in $.25 increments). To encourage the participants to reveal their true preferences, they were told that one of these 24 prices would be randomly selected to conduct real trades at the conclusion of the experiment. At the end of the study, the selected price was announced, and all qualifying transactions were conducted. Finally, the debriefing exercise was carried out. As expected, no participant voiced any suspicion as to connections between the relationship manipulation and the endowment effect task.

Results

Manipulation Check. The open-ended question as to how to split a lunch bill with a friend also served as a manipulation check. Two independent judges coded the responses on a seven-point scale (correlation = .88), with lower numbers being given for an exchange-oriented response (e.g., pay for only what each person ate) and higher numbers being given for a communal response (e.g., pay for the friend’s lunch too). When the participants indicated that the bill be split equally (an action that is consistent with both communal and exchange relationship norms), the mid-level score of four was given. Participants’ responses reveal the effectiveness of the manipulation, with the score being significantly higher in the communal than in the exchange condition (, ). In addition, an analysis of the 13-item questionnaire confirmed the success of the manipulation with participants in the communal condition showing a significantly higher net communal score (Cronbach’s alpha = .78) than their exchange counterparts (, ; , ). Further, participants in the exchange condition had a significantly higher score on the four-item net exchange score (Cronbach’s alpha = .81) than those in the communal condition (, ).

Next, an analysis of the PANAS scale showed no significant effect of relationship type on positive affect across the three conditions (, , ), with the communal condition revealing a significantly higher score than the exchange or control conditions (, , ). However, there was a main effect of relationship type on negative affect, with the communal condition revealing a significantly higher score than the exchange or control conditions (, , ). It may be that this difference was caused by some peculiarity in the scenario descriptions (e.g., the communal condition mentions the person being left down by a friend). Interestingly, this result rules out differences in affect as an alternative explanation of why those primed with communal norms might be more loss averse. Inasmuch as recent work finds a mitigating influence of negative affect on endowment effect (Lerner et al. 2004), an affect-based explanation would suggest that those primed with communal norms should exhibit lower loss aversion—exactly the opposite of what we predict.

Dependent Measure. A 3 × 2 ANOVA was conducted on the prices indicated by the sellers and the buyers, that is, the selling prices indicated by the sellers and the buyers.
the buying prices indicated by the buyers. Analysis showed a significant main effect of role with sellers quoting a higher price than buyers, demonstrating the standard endowment effect ($M_{sell} = $4.14, $M_{buy} = $2.04; $F(1, 92) = 68.20, p < .001). There was also a significant main effect of relationship type ($F(2, 92) = 4.43, p < .05$), with those in the communal condition quoting a higher price than those in the exchange ($M_{comm} = $3.60, $M_{exch} = $2.82; $F(1, 92) = 6.79, p < .01$) and in the control ($M_{control} = $2.83; $F(1, 92) = 6.34, p < .05$) conditions. Furthermore, the prices in the exchange and the control conditions were not significantly different ($F(1, 92) < 1$). More important, as expected, these main effects were qualified by a significant relationship type × role interaction ($F(2, 92) = 7.92, p < .001$; see fig. 1).

Planned contrasts indicated that, consistent with hypothesis 1, the gap between selling and buying prices was significantly larger in the communal condition compared to both the exchange ($F(1, 92) = 9.90, p < .01$) and the control ($F(1, 92) = 13.36, p < .001$) conditions, although no difference across the exchange and control conditions ($F(1, 92) < 1$). Further analysis found no differences in the buying prices between the communal versus the exchange ($F(1, 92) < 1$), the communal versus the control ($F(1, 92) < 1$), or the exchange versus the control ($F(1, 92) < 1$) conditions. However, consistent with hypothesis 2, participants in the communal condition demanded a significantly higher selling price relative to those in the exchange condition ($F(1, 92) = 16.55, p < .0001$). In addition, confirming hypothesis 3, participants in the control condition quoted a lower selling price than those in the communal condition ($F(1, 92) = 19.05, p < .0001$) but a price no different from those in the exchange condition ($F(1, 92) < 1$). Hence, our results suggest that the degree of loss aversion was no different between the control group and those primed with exchange norms; the results also suggest that the differences across conditions were driven primarily by the greater loss aversion in the communal condition as evidenced by their relatively higher selling prices (WTA).

**DISCUSSION AND IMPLICATIONS FOR FUTURE RESEARCH**

This research provides a vital empirical test of the proposed moderating effect on loss aversion by examining relationship norm salience as one such moderator. Our results suggest that communal norms, distinct from exchange norms in emotional attachment and cognitive perspective, increase the consumers’ degree of loss aversion as revealed by the higher WTA. Our results also suggest that participants in the control and exchange conditions behave no differently. Thus, in the absence of any specific relationship norms being primed, exchange norms are presumably used as the default for a common commercial transaction. This, in turn, suggests that differences across communal and exchange norms are largely driven by consumers behaving differently than the “average” when primed with communal, rather than exchange, relationship norms. This result is important in that it highlights that exchange norms do not have the same mitigating effect as exchange items noted in previous research (Kahneman et al. 1990), possibly because exchange items are not really made a part of the individual’s endowment. Moreover, since exchange norms are presumably used as the default norms for most commercial transactions, an alleviation of the endowment effect possibly requires the support of added factors, such as the buying and selling of a non-endowed (i.e., an exchange) item. Future studies might examine conditions in which exchange norms are not necessarily the default (e.g., a different cultural context), which might then lead to a weaker loss aversion than that observed in a control condition.

Our research also found no differences in the buying prices (WTP) across the different conditions. This result is important in that it suggests that communal norms do not merely lead to a higher overall valuation of a product since participants in the different relationship conditions valued the mug similarly when they did not own it. Our results are also consistent with prior findings that show that participants who are given a choice between money and the object (i.e., the chooser group) also value the object much like the buyer who are given a choice between money and the object (i.e., the chooser group) also value the object much like the buyer group does (Kahneman et al. 1990). The fact that WTP does not change in any real way when the relationship norms are made salient is thus in keeping with, and a further ratification of, the relative stability of WTP.

Further, our results are important in that they emphasize the contextual effect of relationship norms by highlighting the role of mere salience of norms on the degree of loss aversion by showing that consumers’ generalized experience of loss was affected even when the objects of evaluation and relationship were unrelated. These findings are consistent with recent research on the subtle carryover effect.
of norms on subsequent behavior (Aarts and Dijksterhuis 2003).

Interestingly, this article identifies a moderator that aggravates rather than eliminates consumers’ loss aversion. Prior research suggests that endowment effect is driven by the differences in what buyers and sellers focus on (Carmon and Ariely 2000; Nayakanuppam and Mishra 2005). If the participants’ focus were not on the object being traded (i.e., the mug) but on the person with whom the trade was conducted (e.g., the experimenter), a reversal of the effect of communal norms on WTA might be observed. Future research could examine this potentially interesting boundary condition of the effect of relationship norms on loss aversion.

Finally, our research has some valuable suggestions for practitioners. Since communal norms make people less willing to give up what they own, firms that profit from resale business (e.g., eBay) may be well advised to find ways to encourage people to think in exchange rather than in communal terms. Further, given that the use of coupons can also lead to an endowment effect (Sen and Johnson 1997), perhaps these marketing tactics are more effective for brands that have developed a communal relationship with its consumers. Of course, forming a communal relationship may have its own pitfalls. For example, a perceived betrayal by the brand and the consequent negative emotions may result in the consumers wanting to get rid of the brand, consistent with findings on the effect of feelings of disgust on endowment effect (Lerner et al. 2004). In keeping with prior research on the dark side of relationships (Grayson and Amberl 1999), there are grave potential risks in the invariant pursuit of deep consumer-brand relationships. An empirical verification of this predicted reversal of the effect of relationship norms on loss aversion is awaited.

APPENDIX

MANIPULATION OF RELATIONSHIP NORMS

Communal Description

Chris is a student at the University of Toronto, and is now in the third year of the management program. Chris likes to go to movies with her friends, but is careful in her interactions with them. She believes that relationships should be quid-pro-quo. In fact, she always likes to keep things as even as possible and generally keeps a track of her exchanges with others. In fact, she is also very uncomfortable if others give her more than what she has been able to give them, and tries to find a way to return the favor as early as possible. When she helps other people, she generally makes a mental note and expects them to reciprocate in kind. Once she got very upset when she lent a book to a friend, but the friend forgot to return the book to the library within the due date. She felt that the least her friend could do was pay the late fee that the library would levy on her.

The other day she had gone out with one of her dear friends for a quick lunch after school. When the bill came, she looked at it and decided to . . . (please complete the sentence by putting yourself in Chris’ position and imagining what she might have done).

Exchange Description

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