CONSIDERATIONS OF EQUITY IN MARKETING AND NOZICK'S DECISION-VALUE MODEL

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Executive Summary

Introduction
This paper reviews how the subject of equity is dealt with in current models of decision-making, claiming that the perspective on equity is one of consequentialist thinking about tangible gains and losses. It advocates an alternative model where the desire for equity is treated as expressive behavior.

Concept of Equity
Equity involves the notion of fair dealing; of a fairness that goes beyond just what the law demands. Although 'justice' is sometimes equated with equity, justice is more properly a goal of political activity, most directly applied to setting up and evaluating legal systems. In explaining why equity violations are wrong, appeal can be made to various ethical theories but no ethical theory provides definite answers: rules cannot substitute for hard thinking on context and culture.

Equity in Decision Making Models
Rational choice theory (RCT) rests on the supposition that individuals are rational agents who optimize through considerations of costs and benefits. It assigns no role to equity while taking goals as a given: the objective being merely to choose the best means to fulfill goals, whatever their nature.

Prospect theory has been positioned as an alternative to RCT of how choices are made under risk. Several conclusions are drawn from this theory, for example, that people think of outcomes as additions to or deletions from current wealth and are more repelled by the idea of losing any of their wealth than they are attracted by a corresponding gain. Prospect theory is more suited to tangible losses and tangible gains and requires some stretching to explain consumer behavior in equity situations. Regret theory takes account of the emotion of regret as relevant to consumer decision making. It predicts the same risk aversion as prospect theory but predicts this by adding a new variable, namely, regret to the normal utility function of RCT. Regret theory does have relevance to equity issues in that fear of regret, if a transaction is inequitable, can lead consumers into holding back from buying.

Sociologists argue people are social animals influenced by social norms and by the expectations of their roles, and the demand for equity in buyer-seller dealings reflects established social norms. It is argued that appeals to social norms help determine what is fair.

However, they take no account of the expressive nature of equity demands. Social psychologists, however, do distinguish expressive reasons from instrumental reasons for taking action, pointing out that many actions can be purely expressive.
Cognitive psychology (the information processing approach) has had little to say on equity issues since, resting on the metaphor of the brain as a computer and the mind its software, it has failed to take adequate account of motivation and emotion, both involved in demands for equity in buyer-seller dealings.

Drawing on cognitive neuroscience, economics and psychology, neuroeconomics has demonstrated the important role played by emotional factors in economic decision making. As emotion is involved in demands for equity, there is evidence here how things that concern us provide emotional motivation.

In the consumer behavior literature the focus has been on decision processes and decision strategies. The decision processes have tended to be processes that seem logically necessary, though not always. Decision strategies have focused on, for example, whether the consumer weighs up the various attributes of rival brands and weights them to arrive an overall score, or follows some non-compensatory strategy like the 'satisficing' model, where the first product evaluated that meets cut-off values for all the attributes is chosen, even if it is not the best.

In the consumer behavior literature, equity is treated as an element of customer satisfaction which it is. But each of these studies regards equity as an element in some cost/benefit equation. Frank's 'commitment model' explains deviations from the economist's RCT as arising from an emotional commitment to what is equitable with the additional claim that this pays off long term. Equity is also viewed in terms of tangible costs and benefits. What we argue is that we cannot fit equity considerations into a cost/benefit framework as equity demands are expressive or symbolic behavior that cannot be grafted into a costs and benefits framework.

Trust and Loyalty
Commonly we (wrongly) confuse trust in a relationship with simply confidence in outcomes. Trust in a seller implies the buyer does not demand equal-worth exchanges in every transaction in the belief that things will even out long term. Where sentiment, nostalgia or positive emotion is attached to trust, it becomes the basis for loyalty which can withstand more assaults on it than trust, so inducing loyalty is more desirable than simply getting the consumer's trust.

Nozick's Decision-Value Model
The paper advocates the adoption of Nozick's decision-value model which moves away from the simplistic view of rationality being exclusively concerned with consequentialist thinking about gains and losses. The first element in Nozick's model is the recognition that action is influenced by certain overall principles. The second element is the concept of maximizing decision-value where three different modes of connecting action to outcome, namely, causal, evidential and symbolic, are taken into account. Causal utility relates ends to means. Symbolic utility accepts that action is often simply expressive of feelings and a way of life: not instrumental but an end in itself. Evidential utility takes account of the fact that people's perceptions of the probabilities of outcomes may not be independent of the actions themselves being taken, that is, deciding to take some action may affect a person's perception of the magnitude of the probability of the outcome. An action's decision-value is conceptualized as the weighted sum of its causal utility, evidential and symbolic utilities. Nozick's third element is consideration of the person's relevant beliefs. As Nozick says, current decision theory is a theory of *best* action, not a theory of *rational* action since it neglects any criteria for establishing the rationality of the beliefs entering into decision making.

The model is applied to an actual case to demonstrate it applicability to real life situations of equity violations.

Key Words: Behavioral economics: Causal utility: Cognitive psychology: Cognitive neuroscience: Commitment model: Compensatory decision strategies: Consumer behavior: Cost-benefit analysis: Decision-Value model: Deontological: Equity: Evidential utility: Expectations (adaptive vs. rational): Expressive action vs. instrumental action: Involvement with purchase (high/low): Justice: Loyalty: Multiattribute model: Non-compensatory decision strategies: Objective relativism: Principles: Prospect theory: Utilitarianism: Rational Choice Theory (RCT): Regret theory: Satisficing behavior: Symbolic utility: Symbolism: Trust

CONSIDERATIONS OF EQUITY IN MARKETING AND NOZICK'S DECISION-VALUE MODEL

Equity for the consumer is crucial and this paper considers how equity is dealt with in current models of decision-making. It argues that equity is typically regarded as something that can be handled by consequentialist thinking about the tangible gains and losses involved in a transaction. The paper advocates an alternative model, more suited to the notion that actions to advance equity are expressive actions which are capable of sacrificing material interest to signal resistance to all attempts to put across an inequitable deal. After an analysis of the concept of equity and related terms like justice and ethics, the paper moves on to consider the treatment of equity issues (or the absence thereof) in microeconomic models, prospect theory, regret theory, sociology, cognitive psychology, neuroeconomics, and consumer behavior models. Next the paper discusses studies of equity in the marketing journals where it is treated as an element in customer satisfaction. There is a brief description of Robert Frank's Commitment Model but, like the others, it is shown to be trying to fit equity into a gains/loss framework where it does not fit. Frank's model leads us naturally into a discussion of the concepts of trust, loyalty and altruism since these tie into issues of equity. It is argued that the model of rationality in decision-making proposed by the philosopher Robert Nozick is not only a model of rationality most suited to marketing but is the only model that recognizes the true nature of the consumer's demand for equity in dealings with sellers. Finally, there is a discussion of equity in consumer buying and the application of the Nozick model to a protocol statement involving an outraged consumer in a buying episode that involved a violation of equity.

The Concept of Equity

The topic of this paper is the question of equity in buyer-seller dealings. While equity is used in a number of senses, all involve the notion of fair dealing. In recognizing the insufficiency of general rules to cover all individual cases, Aristotle fell back on the concept of equity as being concerned with what is 'just'-----not legally just but a correction to legal justice. The concept of equity still carries this notion of a fairness that goes beyond legal requirements so we speak of equity in advocating equal opportunities and affirmative action for women and disadvantaged minorities as well as in democracy where it is often interpreted as showing equal concern for each and every citizen. In religion, Guenther Haas discusses equity in the sense of fairness as the central theme of John Calvin's (1509-1564) social ethics. Equity, as an ethical concept, is used in educational policy debates to mean fairness or social justice in providing education for all children. In health care, equity as an ethical principle has led to attempts at eradicating systematic disparities in access to medical treatment, not by appeal to 'natural justice', but by appeals to human rights. For the consumer, equity is also concerned with *fairness but fairness in commercial transactions.*

Although there may be no uniformity of judgment as to what is 'fair' or 'unfair', this does not imply that decisions on equity in individual cases are arbitrary. One general approach is to argue that ethical claims are concerned with human well-being and can be evaluated in terms of being true or false or, at least, reasonable or unreasonable by reference to social norms. Another claim is that equity, as a principle, falls under the concept of *objectivism relativism* which claims that, while the right ethical decision is relative to the situation, the decision can still be objectively right or objectively wrong. It is analogous to proverbs. Thus there is a persistent conflict between proverbs, for instance, 'too many cooks spoil the broth' and 'many hands make light work'. This contradiction can be reconciled by recognizing that, while their appropriate application is relative to circumstances, the application is objective and not a subjective matter in that we have no problem in saying which proverb applies in what situation. The same could be said for many principles of marketing. And it is true also in respect to equity.

Every buyer is disposed to reject any offer that is perceived as violating the norms of what is considered fair and just. On the other hand, a commitment by the seller to fairness is *part* of the seller's *ethical* responsibility which is to ensure company policies and actions do not threaten individual and public well-being, and do not intentionally deceive while compensating for injuries that occur in carrying on business. Any seller violations of equity norms can destroy trust in the seller, while undermining reputational capital. This paper claims that the approach to equity in the literature is generally one of trying to fit equity into the framework of gains and losses which is an illicit graft in the sense that equity issues and calculations of tangible gains and losses do not gel. This paper argues that a better approach is that suggested by Nozick in his Decision-Value model.

Justice

How does the concept of justice fit the concept of equity? The doctrine of justice as advocated by Rawls (1971) is co-terminous with fairness and can be seen as advancing a claim for the primacy of *distributive* justice in settling claims over what is just. On the other hand, the ideas of fair trading, fair wages, and fair treatment use the term 'fair' to denote justice in transactions rather than distribution. Although the term *justice* elsewhere has sometimes been equated with equity, it is more properly a goal of political activity, most directly applied to setting up and evaluating legal systems.

Rawls (1971) in his *Theory of Justice* articulates the principles of Justice (pp.259-65) that might underlie a democratic state. In order to arrive at these, Rawls revives the notion of a social contract while arguing that people would prefer to live in a society where there was equal liberty with a minimum of social and economic inequities. He rejects utilitarianism on the ground that it allows the rights of some people to be pushed aside for the greater good of society. His *just* social contract is one we would agree on, providing we did not know in advance what it would mean to us individually. This is an echo of Adam Smith's doctrine of the 'impartial spectator' whose assumed disinterested judgment we should use to distinguish right from wrong in any given situation or society (Raphael and Macfie, 1984). The concept of the impartial spectator would seem useful for judging the relative merits in an equity dispute. However, to many, this would seem more properly to be the domain of ethical theory.

Ethical Theory

Issues of equity shade into broader ethical issues as, for example, the ethics of human organs harvested from prisoners or bought from the impoverished elsewhere in the world. In ethics there are 'minimalists' like Milton Friedman (1962) who claim business ethics should be minimal while others appeal to higher standards of social responsibility. But as Kuhn (1995) points out, contrary to popular opinion, Friedman claims that an equitable society is a necessary condition for free markets and, since a necessary condition for success is a sufficient reason for failure, Friedman in effect places the highest value on achieving an equitable society. In support, Kuhn, a Columbia emeritus professor of ethics, says "only if the moral foundations of a market are behaviourally present in and among participants, can a free, competitive-market exist and deliver its promised benefit (p.6)…..a general trustworthiness among those interacting in markets may contribute more to ease commercial relationships----as well as economic efficiency---than does single-minded pursuit of self-interest" (p.13).

This does not explain, however, why, for example, deceiving the consumer is ethically wrong. To answer this question, there is a natural resort to ethical theory. Excluding Divine Law, there are four ethical theories: the deontological approach (stress on moral absolutism), the consequentialist tradition (focus on consequences like utilitarianism), the contractarian view (like Rawls) and communitarianism (moral justification as rooted in community tradition).

But the two most commonly discussed are deontological ways of thinking (Nagel, 1979) and utilitarian theory (Singer 1979).

Flanagan (1996), a philosopher in the field, claims none of these systems offers answers or much guidance to any ethical controversy because the wisdom we seek in ethics is often geographically local and temporarily local (p.123)…..and morality resists theoretical unification under either a set of special-purpose rules or a single general-purpose rule (p.127). Stephen Toulmin (2001), another philosopher writing on ethics, has this advice to those teaching ethics:

> "………. doctors, nurses and paramedics taking courses in applied ethics found the abstractions of philosophical analysis too general and theoretical to be useful teaching tools. When required to master the definitions of 'deontology" and "consequentialism", apprentice nurses dropped out in droves. Real-life cases they understood and enjoyed, but theoretical modes of analysis were less than ideal ways to resolve the quandaries of practice at the bedsides of individual patients." p.121

What both philosophers are reacting against is the notion that there are rules that can be mechanically applied to solve ethical problems. There is no book of rules for recognizing and solving equity violations either. There is a temptation to suggest such rules because rules are always welcome as they substitute for hard thinking. But following rules can lead to putting in standard solutions when standard conditions do not exist. This does not mean that business ethics should not be taught, even if what is available by way of theory does not provide quick answers. Courses on ethics are a latecomer to business schools, emerging in the 1970s, with the focus on the ethical justification of business structures, the ethical responsibilities of management, fairness in the work place and so on. Courses, largely through case studies, do sensitize students to the ethical responsibilities of corporations to consumers, workers, shareholders and the general public and, most important of all, talk about the how to implement and monitor ethical behavior within the company.

Microeconomic Models (Rational Choice Theory)

If we look at decision-making as necessitating deliberation before making choices (as opposed to just random picking, habitual buying or just using the likeability heuristic), several perspectives emerge from economics, sociology, social psychology, cognitive psychology, neuroeconomics, and the consumer behavior literature. We argue that none deal adequately with considerations of equity.

Standard economic theory views people as rational maximizers of 'utility' who are rational to the extent that they select the most efficient means of achieving the goal of maximizing utility (Hollis, 1987, 1996). *Rationality,* in this context, is defined as the pursuit of ends in the most efficient way and the most well-known theory of this version of rationality is the economist's *rational choice theory (RCT)* that explains rational behavior in terms of maximizing *expected* utility. RCT is a method of modelling behavior on the supposition that individuals are rational agents who optimise, through considerations of costs and benefits. The notion of utility-maximizing in self-interest is the key notion in all variations of rational choice theory.

In terms of its basic tenets, the use of RCT is extensive. Alan Ryan (2003), in a review of Amartya Sen's (2003) *Rationality and Freedom,* points out that the prestige of economics, among the other social sciences, is such that sociologists, legal scholars, and political scientists have been applying its analytical methods to their own disciplines under the label of rational choice theory (RCT). Ryan claims RCT appeals to those academics in social science that yearn for the kind of consensus they see among economists about the standards for good professional work. Ryan might also have included biology, theology, politics and history.

Thus in the case of biology, Glimcher (2003) argues that biologists have returned to economics on the assumption that the decisions an animal makes, in the environment from which the animal evolved, may more nearly approximate optimal courses of action than do the decision of humans operating in our modern society. Economic models, he argues, have allowed us to predict and define the behavior of animals with tremendous precision. In theology, RCT is shown to be predictive of religious behavior as, for example, in Young's (1997) *Rational Choice Theory and Religion.* Ferling (2003), endorsing the RCT approach in politics, argues that political behavior owes much to economic considerations and most people customarily embrace ideas that cohere with their personal interests, especially pecuniary considerations. RCT has also been used as the background model for interpreting history, for example, in the work by Fogel and Engerman (1974) in determining whether slavery was profitable in the antebellum south.

The obvious limitations of rational choice theory and similar models have been highlighted by economists themselves. A review can be found in Baron (1988). As one prominent economist, Amartya Sen (1987), says, why should it be considered uniquely rational to pursue self-interest to the exclusion of everything else? Classical microeconomics assigns no role to generosity, social conscience, goodwill or fairness yet the evidence shows people resisting transactions they perceive as unfair and customers resist price increases not seemingly justified by cost increases (Kahneman, Knetsch, and Thaler, 1986). Rawls (1980) regards acting purely from self-interest as "unreasonable" behavior on the ground that willingness to be guided by reasons from an impartial or intersubjective viewpoint defines what is called "reasonable" behavior. Particularly worrying for marketers, is that microeconomics takes goals as given so the object is to choose the best means to fulfil the goals. Not surprisingly, RCT (except for the mathematical model builders in marketing), no longer occupies a prominent position in the marketing behavior literature but the core notion of cost/benefit is very much alive.

March (1992), an economist and a co-author of Herbert Simon, claims that, while economists retain the rhetoric and logic of RCT, they accept, in practice, limited rationality, acceptance of conflicts of values and interests, with the recognition that information is costly, incomplete and uncertain while rules, regulations, norms and institutions have been rediscovered. There is in fact a new discipline called 'behavioral economics' in which, unlike mainstream economics, the focus is on *cognitive* processes in making decisions in the market place. Hence the title 'behavioral economics'. Behavioral economics has had some interest in equity issues. It is found, for example, that if the consumer feels cheated, and is given a choice over whether to collect $5 for herself and $5 for the cheater or nothing at all, she prefers to walk away from the deal with nothing at all than see the cheater equally benefit (Begley, 2004). This is a good illustration of how perceptions of what is fair affect behavior. Behavioral economics, however, is just a side show to mainstream economics.

Prospect Theory

Although it has proved easy to show the deficiencies of RCT, it has been less easy to put forward an alternative as opposed to suggesting patches. Kahneman and Tversky's (1979) 'prospect theory' is an exception. It is positioned as an alternative to RCT of how choices are made under risk, drawing on aspects of utility theory and also Simon's notion of Satisficing. Prospect theory accounts for its findings by replacing utilities and probabilities with "value functions" and "decision weights". Decision weights need not obey the usual probability calculus. The two components of value functions and decision weights are combined as in mathematical expectation.

Prospect theory has generated a great deal of interest in psychology and in marketing in offering the promise of discovering the mechanisms of preference, judgment and choice. To understand the mechanisms of choice behavior would help us to have a better understanding of the heuristics used by consumers. Critically, it modifies subjective expected utility (SEU) theory, to account for a series of experimental results that show the SEU model does not describe real behavior. In replacing the concept of utility with the concept of *value*, prospect theory provides a reference point for evaluating gains and losses. It argues that gains and losses are evaluated in terms of the reference point and that there is greater value for the first marginal gain from the reference point than for subsequent gains. The 'certainty effect' claims that people tend to underweight *probable* versus *certain* outcomes while the 'isolation effect' states there can be inconsistent preferences for identical outcomes based on how the outcomes are described or framed. (No one in marketing would doubt this). People, it is argued, think of outcomes as additions to or deletions from current wealth and are more repelled by the idea of losing any of their wealth than they are attracted by a corresponding gain. This is in line with a rule in investment that the client's capital should be preserved above all else: people are more concerned with losses than corresponding gains. The concept of *endowment* claims a good is more valuable if you own it than if someone else does. People give *unlikely* events more weight than they deserve and *arbitrarily* give some events more weight than they deserve.

A basic criticism of prospect theory is that made by Isaac Levi (1985), a Columbia University philosopher specializing in decision theory. Levi (1985) questions prospect theory at its roots, namely, the interpretations of the experiments that supply the phenomena that prospect theory attempts to incorporate. He demonstrates that similar results could have been produced if subjects simply took a different interpretation of the instructions provided. Considerations of equity *could* come under the notion of people being more concerned with losses like loss of face, self-esteem and so on than corresponding gains. However, prospect theory is more suited to tangible losses and tangible gains and requires some stretching to explain consumer behavior in equity situations.

Regret Theory suggests another modification to the economic model. It can be related to prospect theory. Regret theory takes account of the emotion of regret as relevant to decision making. Anticipatory reasoning forms the basis of regret theory which is positioned as an economic theory of choice by David Bell. Regret theory rests on two assumptions:

1. Many people experience the sensations we call regret and rejoicing.
2. In making decisions under uncertainty, we try to anticipate and take account of those sensations.

Thus if faced with a choice between $1000 for sure but getting $2000 if an unbiased coin lands on Heads, people typically choose the sure bet to avoid any regret they would feel if the coin had landed on Tails. *This is the same risk aversion predicted by prospect theory but regret theory predicts this choice by adding a new variable, regret, to the normal utility function.* With the addition of this variable, regret theory is able to account for many of the same paradoxes as prospect theory. But anticipation of regret is just one of many possible emotions that could account for the direction of a decision. In fact, lying behind the values exhibited in all consumer tradeoffs is some tie to past emotional episodes and it is these emotions/values that avert paralysis in decision making (De Sousa, 1990). That said, regret theory does have relevance to equity issues in that fear of regret, if a transaction is inequitable, can lead consumers into holding back on buying.

Sociologists have long been critical of the microeconomic model. They have criticized microeconomics for ignoring the influence of social norms in that action can be non-outcome-oriented or made contingent of the past history or the behavior of others. People are social animals and are influenced by social norms and by the expectations of their role. It might be argued that the demand for equity in buyer-seller dealings simply reflects these established social norms. The very idea of a social norm carries the notion of 'oughtness', being prescriptive and enforced by the shame of not doing what is socially demanded. This sociological criticism is well-taken and a necessary counterweight to just focusing on material gains and losses but it does not capture the expressive nature of equity demands by the consumer.

Some psychologists and social psychologists, particularly those who focus on the meaning or significance of action (Bruner, 1990), criticize microeconomic models of rational decision-making on the ground that microeconomics assumes actions are only evaluated in terms of the tangible consequences of gains and losses. The expressive aspect of buying is not considered, yet there are both instrumental reasons and expressive reasons for taking action. Action on occasions can be purely expressive and not instrumental to anything beyond the pleasure obtained from the action itself as, say, in mountaineering. As Hollis (1996) argues, in acting expressively people signal the value both of the desire itself and the means taken to satisfy that desire. With instrumental reason, actions are chosen which are considered to be the best means to achieve ends, while with expressive reasons, the action is an end in itself. Some buying actions may on occasions be simply expressive symbols of identity (Dittmar,1992). Particularly in cases of information overload as in politics, symbols of values upheld become important to the decision-maker.

A good many products are primarily expressive or have an expressive dimension. Ness (2003), in her ethnographic study of Philippine tourism, speaks of tourists seeking 'liminality', by which she means a temporary utopia where the tourists assume roles in which they can play at not having to work; being more socially privileged than they really are or taking delight at communing with nature and relating to all things exotic. Pushing for a cause that people know is hopeless can be expressive behavior, as people have perceptions of themselves as moral agents and seek to bring their ideals into being even if it is a lost cause. Here there is no anticipation of future regret for losses arising from trying. Expressive behavior is important in that the demand for equity in buyer-seller dealings can be expressive of ideals.

Cognitive Psychology

In looking at decision-making, cognitive psychology (the information processing approach) suffers from its neglect of emotion and motivation, which are essential elements in equity issues. With its root metaphor of the brain being a computer and the mind its software, cognitive psychology tends to share with economics an interest in stressing 'hard' rational decision processes, uninfluenced by other than instrumental thinking (Baron, 1988). But marketers have come to be more aware of the crucial influence of emotion and, with that awareness, few in consumer research now treat cognitive psychology, with the computer as its root metaphor, as of major relevance.

Neuroeconomics

Cognitive neuroscience is the study of the neural mechanisms of cognition. Drawing on cognitive neuroscience, economics, and psychology is *neuroeconomics* which is concerned not only with identifying areas of the brain associated with specific behavior but also in distinguishing the neural circuits that control choices, preferences and judgments. Researchers in this area have found that emotional factors (and not just cold rational calculation) play an important role in people's economic decision-making. Imaging studies have shown how social interaction impinges on neural responses, so people may choose cooperation and shared gains over self interest (McCabe et al., 2001). This is of interest though expected. Unfortunately, cognitive neuroscience is under attack on the ground of being conceptually confused and misleading (Bennett and Hacker, 2003). Anyone interested in this area needs to come to grips with this criticism (which applies, but less directly, to cognitive psychology). In any case, neuroeconomics has yet to make a contribution to the equity issue.

It was Herbert Simon who coined the term Satisficing to describe the more typical behavior of people searching until they find a workable solution rather than an optimum one: it is accepted that people stop short when an alternative is considered 'good' enough. The satisficing concept is taken over in consumer behavior as a heuristic strategy, namely, the first product evaluated to meet cut-off values for all attributes is chosen, even if it is not best. This use of heuristics is in line with Simon's concept of 'bounded rationality' in acknowledging that people's abilities fall below that demanded to solve many complex decisions and, as a consequence, people fall back simply on rules that yield a satisfactory solution most of the time. There is a strict limit to what the mind can absorb and deal with without encountering information overload. These constraints on rationality are well-taken but they are not concepts that help much with consumer-dealer equity issues except that consumers on occasions fail to come to grips with equity violations.

Consumer Behavior

The marketing literature has been most concerned with decision processes and with decision strategies than with actual decision content.

The process leading up to buying is generally viewed as a logical process e.g., want recognition; search for alternatives and information (either memory based or stimulus based) leading to an awareness-set and a subsequent subset of options; the evaluation of the subset of options on the basis of choice criteria; a decision whether to buy and, finally, post purchase behavior. At the post purchase stage there may be a re-evaluation since some attributes need to be experienced (experience attributes) before a final verdict, while certain other 'credence' attributes require long use. This set of stages is not claimed to be a fixed order in that, for example, a consumer might simply have a product brought to her, evaluate it and buy it. In any case, there are other sequences like that inspired by David Velleman: ruling out of options disliked; reflection on the descriptive image of each alternative considered and its fit to the descriptive image of the consumer and the context in which she will be using the product; rationalization to justify an emerging implicit favorite; formation of intention to buy the emerging favorite; post-purchase behavior. Still another view is that of Montgomery (1989) who claims that the desire to justify to others and to self- justify a decision can result in a process of cognitively restructuring information for making the decision so that the alternative chosen is presented as dominating its rivals. Montgomery's description of the decision process has echoes of Velleman's. He argues that information search prior to the decision passes through four stages: (a) screening where the conjunctive rule operates to eliminate options not having certain attributes, (b) choice of a promising alterative defined as that which most commands attention, (c) *dominance building* in which the promising alternative becomes the dominant alternative through confirmation bias when assessing the evidence, and (d) restructuring the problem to choose a new promising alternative if the dominance structuring that has already occurred fails for some reason.

In whatever way the process of decision-making is described, equity considerations can be accommodated under the rubric of 'evaluation of the total offering' but the process itself is not concerned with any specific content.

Decision-making Strategies

The other approach in consumer behavior is based on the assumption that consumers follow a number of decision-making strategies in buying. This must be a matter of empirical inquiry, needing to go beyond demonstrating in a laboratory situation that certain logical strategies are followed. This is because the laboratory situation can unconsciously ensure 'logical' strategies are chosen as Harré and Secord (1973) show.

There are compensatory decision-making strategies where the consumer is viewed as acting 'as if' he or she weights each attribute like durability, economy, taste or whatever and rates each brand on the basis of how much it has of the attribute. It is a multiattribute, compensatory model because several attributes are involved, with a brand's weakness on one attribute being compensated by strength on another attribute. On this basis, the consumer calculates overall relative scores for the various alternatives. To many marketers this model of consumer decision-making is as removed from real life as the rational choice model, even when it is stressed that the list of attributes should be those reflecting a basis for variations in choice and that the attributes need to be independent (to prevent double counting) and free of vagueness and ambiguity. Apart from the rationality and the time involved in such a strategy, an expressive object like a work of art functions as a whole so we cannot break it down into parts and demonstrate the whole is simply the function of the parts. Parts only have significance as part of the whole and the meaning of each part can only be given significance when visualized as part of a whole: attributes, too, can emerge that do not emerge when things are simply considered in isolation. The model is a ‘kitchen scales model’, a metaphor used by Dancy (2005) to describe such additive approaches to overall value. The overall value to the consumer equals not only the values of the various attributes combined but additionally the value of their being combined that way.

There are several decision strategies that are *non-compensatory*. Unlike the compensatory model, they do not assume that a brand's weakness on one attribute can be compensated by strength on another. Many decision strategies can be devised as the logical possibilities are many. Some are *elimination* by *aspects* which establishes a cutoff value for the most important attribute and allows all competing products that meet the cutoff value to go to the next attribute, to meet, in turn, its cutoff point and so on; the *lexicographic* strategy takes the most important attribute and, if a product is clearly superior on that attribute, that product is selected. There are *partially* compensatory strategies in that strategies are evaluated against each other: two competing products may be evaluated across all attributes and the product that has the higher values across all attributes is chosen or, alternatively, another competing product is added and evaluated to arrive at the best, or all products are compared to cut-off values for each relevant attribute with the product chosen being the one that has the most ‘good’ features that exceed cut-off values. All these decision strategies make it possible to take equity into account since equity can be treated as an attribute of the offering. But there is nothing in these strategies that would draw attention to the need to consider other than material gains and losses.

In marketing we speak of someone having high or low involvement with a purchase. But this begs the question as to what gives rise to this high involvement or makes the purchase so meaningful? It is not just a matter of the purchase being important in the life of the consumer. This is necessary but not sufficient. There must also be a risk (e.g., because of the product's high price) attached to the purchase. High centrality plus perceived high risk attached to the purchase make the product highly meaningful for the buyer and this implies high involvement by the consumer. This relates to equity since equity considerations have high centrality for the consumer and can be accompanied by high emotional risk in pursuing a claim. In other words, the concept of equity has links to the concept of high involvement.

Equity in the Consumer Behavior Literature

If we look at the consumer behavior literature, equity is generally treated as an element in customer satisfaction. This seems logical since equity enters into customer satisfaction. But this literature incorporates equity into a cost-benefit function. It would serve no purpose for this paper to describe the studies in detail since our aim is simply to show that each of the studies mentioned can be interpreted within the loss/gain format of RCT in spite of protests that RCT itself is virtually ignored in buyer behavior.

Bolton and Lemon's study (1999) on payment equity is clearly defined in terms of cost/benefit analysis: "Payment equity is the customer's changing evaluation of the fairness of the level of economic benefits derived from usage in relation to economic costs" (p.3). Payment equity is thus incorporated within the cost/benefit framework.

Tax, Brown and Chandrashekaran (1998) talk of equity in considering complaint handling and at first glance appear to draw on something other than cost/benefit calculations, what the authors refer to as 'justice theory'. They argue that this theory is valuable in explaining people's reactions to conflict situations. But this justice theory turns out to be *how* the *concept* of justice has been historically interpreted in three major applications. If we examine the three applications, equity issues are addressed within the cost/benefit framework:

a. *Distributive justice* whose general principle is that individuals should receive what they deserve. The authors do not draw on Rawls in discussing distributive justice but underwrite the view that the dimensions of distributive justice focus on the allocation of *benefits* and *costs* that take account, not just of money loss, but psychic costs or what consumers expect to get or deserve on the basis of their inputs. This is the cost/benefit calculation model with the addition off the notion of psychic costs.

b. *Legal justice* where conceptions of formal or procedural fairness are uppermost, that is, the carrying out of the law in accordance with prescribed principles. The authors refer to legal justice, when applied to marketing, as 'procedural justice'. This is defined as the perceived fairness of the means by which ends are accomplished so conflicts get resolved in ways that encourage the continuation of productive relationships. This fits the cost/benefit approach. The benefit is *procedural* fairness while corresponding costs are associated with (minimizing) the cost of achieving access, gaining some control over the disposition in any dispute, and (minimizing) costs in achieving flexibility, convenience and time taken.

c. Social justice. Social justice is a contentious issue but, for marketing, social justice is interpreted in the article as *interactional* justice in social (business) dealings or fairness in the treatment people receive during the enactment of procedures. There are psychic costs arising from poor treatment and psychic benefits arising from fair treatment. This is simply an application of the RCT notion of weighing the costs and benefits to choose what maximizes net benefits.

The authors might argue that equity is a part of what they describe as psychic costs and psychic benefits, but everything that costs something has a psychic impact. Similarly everything that throws off benefits will evoke favorable feelings or psychic benefits.

Szymanski and Henard (2001) found equity to be the most important antecedent to customer satisfaction and dissatisfaction. But what they have to say about equity is rooted in the cost/benefit calculations to maximize benefit. *Positive emotional benefits* arise from experiencing fair treatment while *negative emotional costs* arise from experiencing unfair treatment. The authors argue that customer satisfaction has focused predominantly on modelling the effects of expectations, disconfirmation of expectations, performance, affect and equity:

a. *Expectations*: consumers are assumed to assimilate satisfaction levels to expectation levels to avoid any cognitive dissonance that would arise when expectations and satisfaction levels diverge.

b. *Disconfirmation of expectations*: the consumer is assumed to use expectations as the standard against which performance outcomes are assessed. Consumers are said to be satisfied when actual outcomes exceed expectations (positive disconfirmation), dissatisfied when expectations exceed outcomes (negative disconfirmation) and just satisfied (zero disconfirmation).

c. *Performance*: assumed to directly affect satisfaction, in the sense of customers being more likely to be satisfied with the offering if it provides what they want in relation to the costs incurred.

d. *Affect*: in that satisfaction is influenced by the affective component of the offering.

e. *Equity*: in the sense of fairness, rightness or deservingness judgments that consumers make about what they receive in relation to some reference group.

Although expectations has its roots in Tolman's purposive behaviourism, it is a foundational concept of RCT, with economists subscribing either to *adaptive expectations* which views the decision maker as constantly updating expectations on the basis of experience or subscribing to *rational expectations* which views decision makers as having expectations which they perceive as being borne out on average and so treat deviations from expectations as random events. Without standards there can be no guidance for making any sort of judgment and implicit or explicit expectations do constitute a standard for the consumer. No consumer purchases anything unless he or she has some idea what to expect ('buying a pig in a poke' may occur but it is never something expected). Whatever the performance of the product, it will have to be judged before and after purchase against some standard/expectation. The same goes for affect and equity though the separation of affect and equity in the article seems incoherent since affect studies embrace equity considerations.

The Szymanski and Henard article is coupled to the notion of expectations about costs (in terms of performance, affect and equity), set against benefit expectations. This is the cost/benefit format. When we talk about expectations, or better still exceeding expectations, this sets a standard that puts us high on the satisfaction scale but in the process surely makes the concept of satisfaction somewhat redundant. Meeting or exceeding expectations is more operational than talking about satisfaction since satisfaction is a matter of degree: a firm that pleases wins over a product that merely satisfies.

Frank's Commitment Model

Economists cite Robert Frank's commitment model as demonstrating that RCT can accommodate equity issues. Robert Frank is professor of economics at Cornell University and well-known among economists for his explorations into the behavior of consumers, for example, his work on the role of status in economic decisions. Frank (1988) seeks to incorporate into RCT a broader range of behavior than that which is narrowly self-interested. Frank's focus is on emotions and altruistic behavior in economic matters, and he explains deviations from the economist's model as arising from emotional commitments: a commitment to what is equitable leads to the rejection of deals that are not equitable. Frank's title *Passions Within Reason* is an apt one in that he argues that there are good reasons for being passionate. He rejects the economist's model that equates rational behavior with narrow self-interest. In what he calls his *Commitment Model of Emotion*, Frank sets out to show how unselfishness can have a *material payoff* both for the individual as well as society.

Frank interprets being rationally self-interested as implying an opportunistic stance even if we are talking about long term self-interest. In contrast he regards his *Commitment Model* as a step toward a theory of non-opportunistic behavior. *The commitment model claims that behavior that deviates from rational self-interest may commonly be explained by emotional* *predispositions that generate commitments to solve dilemmas in a certain way.* Thus people who feel guilty when they break the law will be disposed not to break the law (e.g. over illegal downloading of music) even when rational calculation of self-interest suggests otherwise. Although the outputs of rational calculation, based on self-interest, do enter as inputs to decisions, Frank argues that feelings and the stronger feelings of emotion are the proximate causes of most behavior.

A surprising thesis is Frank's argument that, over the long term, people are better off being honest than being dishonest. This may not be true, he argues, for any one individual transaction but over many transactions it would tend to be true. To pick and choose the occasions on which to be honest is to weaken the emotional commitment and this is likely to be noticed by others, undermining one's reputational capital. Similarly, a bargainer can add to his reputation as a tough bargainer by being committed to rejecting unfair deals (even if favorable) which in turn can lead to better terms being offered in the future. It is easier to refuse such terms if accepting them makes the bargainer feel bad. *The emotional support provides the backbone to reject the inequitable offer: the impulse to accept is effectively blocked by the imagined emotional consequences arising from accepting.*

The notion of being prepared to reject an unfair deal that is nonetheless favourable captures the core of equity behavior. What then can be the criticism of Frank's position? First, Frank never really sorts out the self-interest issue in that, while claiming material self-interest is exaggerated as an incentive, much of what he says about emotional commitments takes account of *material* benefits acting as a further carrot. But if there is an emotional commitment to ethical action, it is not clear why we need material reward as an additional reinforcement, except that the commitment model can then be welded on to RCT. Unlike Frank, Quine (1987), an eminent Harvard philosopher, maintains self-interest, however enlightened, affords no *rational* basis for altruism. Altruism can go against self-interest or maximizing utility. The problem in fact has been to explain it. Explanations of altruism vary: (a) genetic inheritance so kinships count, (b) cognitive maturity leading to the ability to take on the role of others, and (c) social learning in that people learn that such behavior is expected. These explanations are not exhaustive and each may be at work in altruistic behavior.

The second criticism of Frank is our major one and applies to all the studies on equity and satisfaction discussed earlier. They can all be faulted for attempting to fit equity considerations into the cost/material benefits framework. Elster (1999) makes this criticism most explicit. While equity issues are typically emotional ones, Elster rejects any model of rational decision-making that seeks to fit emotional issues into a cost-benefit function. As Elster says:

"I am not saying that shame is a 'cost' that can be added to other costs of action. Just as emotions can override interest, interest can override emotions but that is not to say that emotions are arguments in a cost-benefit function. For some purposes, shame may be usefully modelled as a cost, but only as a rough approximation and in an 'as if' sense. A person, who thought of shame as a cost, similar to a parking fine, would probably not feel any. Similarly, ……………a person who thought of guilt as a cost that could be eliminated by taking a guilt-erasing pill would probably not feel any" (p.155).

Equity issues require distinct treatment and this is where Nozick's Decision-Value model has advantages. But before discussing the Nozick model, a useful preliminary is to say something about the related concepts of trust, loyalty and altruism. Frank has a good deal to say about altruistic behavior in dealing with others but marketers show more concern with trust and loyalty.

Trust, Loyalty and Altruism

We talk all the time about the importance of trust between seller and buyer and, because trust is part of everyone's vocabulary, it is usually regarded as unproblematic but it needs to be unpacked which means distinguishing it from similar concepts. Thus Seligman (1997) distinguishes trust from 'confidence', 'faith' and 'familiarity'. Seligman points out that trust is necessary for the workings of society and trustworthiness is the warrant for promise-keeping and promise-keeping assumes bonds of trust. He separates 'trust in people' from trust in 'abstract systems' though we would argue that trust in abstract systems like mathematical models can and often does stem from trust in those promoting the system. Seligman rightly states that it is more appropriate on occasions to speak of *confidence* in institutions and abstract systems rather than to talk of trust. This is because confidence is less demanding of attachment than trust. We can be confident a company will do the right thing because of legal and social pressures without giving them our trust. Trust, though, when present, resolves doubts about the other party. Trust, as Seligman notes, comes into interpersonal relations when there is 'role negotiability' (the other party could act otherwise) and role expectations cannot be relied on. Trust comes into its own against a background of indeterminacy and ambiguity. Trust is neither faith nor confidence and mistrust *cannot* be equated simply with lack of confidence. We talk inappropriately as having trust in the other party, institution, product or brand when we mean we have a basis for confidence in our positive expectations.

Most business relations are based on contractual obligations, giving rise to mutual confidence about role expectations. Role expectations rely on social norms, not the law, like the principle of reciprocity whereby people feel an obligation to return a favor of any kind. Supportive interaction gives rise to liking and with liking comes a sense of solidarity. When that sense of solidarity leads us to accept, on occasions, unequal exchanges, we are likely to believe things will even out over time. But this belief is not essential since signalling trust and having a trusting relationship can bring its own reward.

When there is sentiment, nostalgia or positive emotion attached to trust, it becomes the basis for loyalty. It is unfortunate that many regard buying the same brand a number of times as operationally defining loyalty. This misses the emotional element while failing to distinguish between habit and loyalty and the presence of feasible alternatives which loyalty presupposes. Loyalty can withstand more assaults on it than trust alone since trust is more easily undermined by the evidence. The paradigm example of loyalty is the child's attachment to its security blanket which he/she clings onto in preference to any identical replacement. What is important for businesses is to recognize that violations of equity norms undermine trust and destroy loyalty. But even if organizations follow the norms of equity with customers yet behave outrageously with other stakeholders, there can be a backlash from customers. Customers do not simply look to how they are treated personally but are influenced by the total picture.

Nozick's Decision-Value Model

Robert Nozick was Arthur Kingley Porter Professor of Philosophy at Harvard until his death a few years ago, being generally considered one of the major philosophers in America. His well-known book *Anarchy, State, and Utopia* won the National Book Award in 1975. Nozick's decision-value model (1993) has yet to receive recognition in the marketing literature even though Nozick's model focuses on the inadequacies of decision theory as a descriptive model of what *actually* occurs. Nozick's model offers a more overall view of rationality in decision-making than alternative approaches. It constitutes a model that is universal in application, not just applicable to equity issues. Nozick moves away from the simplistic view of rationality being exclusively concerned with consequentialist thinking about gains and losses (what Nozick describes as causal utility) to highlight the importance of symbolic utility in that actions can symbolize or stand for something. The notion of symbolic utility is of the utmost importance to marketing and the consumer in that so much of buying is concerned with symbolism. Nozick’s notion of evidential utility modifies and adds to the realism of the concept of expected utility. The other elements add clarity and realism to a model concerned with rationality. Nozick’s model should be a major perspective in looking at consumer decision-making and provide a basis for generating and testing hypotheses. The model has an elegance and coherence without sacrificing realism for abstraction.

More specifically, Nozick argues we should more realistically talk about maximizing *decision-value* rather than maximizing utility. For Nozick, *causally* expected utility is that which relates means to ends. But this is just one component of rationality. Nozick conceptualizes rational decision making, not as consisting merely of causal utility (relating means to ends), but as taking into account three *other* elements:

First Element: Rational action accords with *principles*:
- acting in a consistent way in like circumstances,
- coordinating actions to give greater coherence to one’s life,
- ensuring others can depend on our principled behavior and that we benefit from others so depending on us, and
- taking the long view rather than seeking instant gain.

Nozick (1993) thinks of principles as going beyond being mere rules, being deeper and less mechanical, and capturing the notion of acting for reasons. And consumers do act for reasons. Enunciating principles constitutes a form of binding to what the principles mandate. But in developing principles on which to act, Nozick argues we should not be simply concerned with basing them on *consequentialist thinking about gains*. Thus, for example, ignoring sunk costs is not appropriate as a *universal* principle of decision making as it would mean violating trust by treating past commitments to others as of no account unless directly tied to gain.

Second Element: The decision rule of maximizing expected utility is inadequate as account should be taken of *symbolic* utility and *evidential* expected utility. Causally (expected) utility cannot be the whole of rationality since rationality is more than instrumentality. In pursuing this claim, Nozick highlights three different modes of connecting action to outcome, namely, causal, evidential and symbolic. Conceptually, we have:

An action’s decision-value is the weighted sum of its causal, evidential and symbolic utilities or $\sum$ wC, wE, wS (wC =weighted causal utility, wE=weighted evidential utility, wS =weighted symbolic utility).

Symbolic and evidential utility are treated as zero when ignored but this would not occur in most consumer buying.

Symbolic utility: Actions can symbolize or stand for something, so that utility can flow back, or be imputed back, not just along a causal connection (e.g., food to meet the goal of satisfying hunger) but also along a *symbolic* connection (e.g., the connection between brand and what it symbolizes for the buyer). Symbolic action enables the action to be *expressive* of feelings, personality, and a way of life. When an action (like buying to symbolize status) is purely symbolic, there is a tendency to think of the action as in some way irrational but, as Nozick says, a large part of the richness of our lives consists in symbolic meanings and their expression. Symbolic utility can be the deciding factor in many buying decisions with purchases symbolizing (a) the buyer's status, (b) the buyer's adherence to the social norms of his or her social milieu, and (c) the buyer's ethical concerns.

This recognition of symbolic utility in buying might be augmented by what Flanagan (1996) regards as *symbolic possessions*: those like photographs which symbolize the *historical* *continuity* of self, family and so on; those which express artistic or intellectual *interests* such as a book collection; and those that signify wealth and symbolize *status* such as a sailing boat. *Symbolic meanings, Nozick argues, become an element of people's reasons for acting ethically and acting ethically symbolizes what we value most highly and what a rational person would not wish to discard.* Seeking equity in transactions is expressive action motivated by emotionally held values. Consumers, in taking account of equity, commonly sacrifice some causal or instrumental utility to satisfy their desire for fairness and justice.

Evidential utility: Economics treats the expected utility of an action as the weighted sum of the utilities of its (exclusive) possible outcomes, weighted by their probabilities. Nozick points out that the probabilities of outcomes need not be independent of the actions themselves, in which case, expected utility is weighted not by the simple probabilities of the outcomes but the conditional probabilities of the outcomes, given the actions. This occurs because taking some action may affect a person's perception of the magnitude of the probability of outcome. For example, those buying a red sports car are statistically more likely to have car accidents than those buying a black sports car. As a consequence, I might refrain from buying a red sports car on the ground that this makes me more likely to have an accident. Yet the probability of an accident is tied to how one drives, how others drive and chance factors and is not causally tied to the color of the car. Nozick argues rationality in decision making should take account of such evidential utility on the part of the consumer even if it may not be justified on strictly rational grounds.

Third Element: There must be rationality in the beliefs themselves. Nozick categorizes current decision theory as a theory of *best action,* not a theory of *rational* action since it neglects any criteria for establishing the rationality of the beliefs themselves that enter into decision making. Thus, with the multiattribute model, we equate a rational *procedure* with rationality, without taking account of the validity of the consumer's beliefs. What consumers might choose under full knowledge conditions and what they actually choose will diverge somewhat because of false beliefs.

Nozick (1993) has two rules for establishing the credibility of beliefs. These rules are meant to be roughly descriptive of what actually occurs. The first rule is that the belief must result from a process that is at least as credible as any displaced (incompatible) alternative. If the belief passes this first test, the second rule is to believe only if the expected utility of believing is *not* less than the expected utility of having no belief about it.

Equity in Consumer Buying

Consumers seek equity in every transaction and sellers need to incorporate it as part of their offering. If sellers do not pay attention to what their customers regard as equitable behavior, they undermine their reputational capital. But because every seller needs to take account of equity perceptions does not mean a seller cannot construct a reputation for fair dealing and make use of it as a competitive advantage. It is still a matter of doing something that is critically advantageous.

What the Nozick (1993) model does, though, is allow us to consider equity issues under the rubric of rationality without trying to incorporate equity into a maximizing utility or cost/tangible benefit format. Consumers have a sense of themselves as moral agents with their buying often *symbolizing*/*expressing* ethical values but they also have an image of themselves as not being taken in and avoiding unfair deals. Whatever concerns the consumer has the potential to arouse the emotions and whatever consumers get emotional about is a guide to their concerns. When an emotional response to, say, an event is disproportionate, it is because the event symbolizes something else to which the emotion is more suited. Thus there may be a disproportionate response to minor matters that affect the consumer materially (e.g., being short-changed by a small amount) because it symbolizes being cheated or violates the norms of fairness. Blakeslee (2003) points to the work of cognitive neuroscientists who show how experimental subjects will make choices that act against 'economic sense' when they feel cheated by what they are being offered: they are prepared to pass over what may be a good deal, if what they are being offered is not in accordance with their notions of equity. This is experimental evidence upholding Frank's claim. Violating a consumer's sense of equity gives rise to such a strong emotion of being cheated with the result that short and long term self-interests can be willingly sacrificed. Concern with equity is an adaptive emotional response in situations where rationality alone would not suffice for winning. Whereas the broader concept of justice carries the notion of universal general principles, equity is tied to a sense of avoiding being cheated, an inherent disposition needed for survival. Cohen (2003) discusses a study reported in *Nature* that suggests we are hard-wired for demanding fairness. The study reports:

"Give a capuchin monkey a cucumber slice, and she will eagerly trade a small pebble for it. But when a second monkey, in an adjoining cage receives a more-desirable grape for the same pebble, it changes everything. The first monkey will then reject her cucumber, and sometimes throw it out of the cage. Monkeys rarely refuse food, but in this case appear to be pursuing an even higher value than eating: fairness."

Frank's book demonstrates his sensitivity over equity issues and the emotions lying behind adhering to ethical norms. However, he accepts that some modification of the economist's concept of self-interest, adding a strong dose of enlightened self-interest and emotion, would allow rational choice theory to subsume all matters of equity. This is an illicit graft as Elster argues earlier.

Concern with equity issues is concern about not being cheated and getting a fair deal. Barthes (1997) talks of the pride of 'not being taken in', and how it is tied to our overall pride in moral bookkeeping. The consumer may refuse to buy a product if she thinks it violates fairness even if buying it would be of worth to her in other ways. To avoid being 'ripped off', consumers often go to far more trouble in time, effort and expense than is objectively worthwhile. This is because, as Frank agues, this is an emotional issue. Action motivated by considerations of fairness is not instrumental action but can be an end in itself, something directly symbolic of values which, in turn, are anchored in the emotions (de Sousa, 1990).

We may agree that a good or service is worth the price in terms of the technical benefits obtained but can be held back from buying by considerations of equity. In respect to personal services like hairdressing, time carrying out the service is an indicator of what the service should, in fairness, cost. We may acknowledge that the price being demanded is worth it to us but refrain from buying because of a conviction that we are not getting a fair deal. The emotional feeling, when a sense of fairness is violated, is that of being 'cheated', not getting a fair deal. Not to be cheated is a major social norm in all societies. On the other hand, over-reward to customers to compensate, say, for neglect in service can lead to feelings of guilt for having complained more volubly than was necessary. But with that 'guilt' can come the desire to reciprocate by repeat purchase so there is some justification for over-compensating!

Expectations act as a standard against which to judge what is fair so that equity issues are linked to the violation of expectations as when we find a hotel has made exorbitant charges for phone calls. *Expectations always play a role in perceptions of what is fair.* This is simply a logical truth. Perhaps the reason we are more concerned with avoiding losses than making equivalent gains (as per prospect theory) has a good deal to do with the perceived 'unfairness' of losses: the negative emotion of making a loss outlasts the positive emotion of making an equivalent gain. This is true even in personal relationships, in that cutting remarks are more of a loss (that is, more hurtful) than praise is a gain.

Established companies undermine customer loyalty by practices, like hidden charges, that violate the consumer’s sense of what is fair. In particular, there is the practice of ‘shrouding’ whereby the final bill (e.g., for car rental, hotel rooms etc) includes ‘add-ons’ that were not expected or suggested in the advertised price. While the consumer may feel trapped into paying the augmented bill, it leaves a bad taste in the mouth with the resolve ‘once bitten, twice shy.’ As one newspaper article says, four and five-star hotels can rack up bills by adding charges that can only be checked for fairness when checking out; the grossly inflated prices of mini-bar drinks, pornographic movies, and the cost of telephone calls (*The Times* editorial, p.19 May 7th 2003, London). The article calls attention to the charge of $70 in one five-star hotel for receiving a fax and $20 for retrieving a solitary aspirin from a first aid box. All the examples are, as the article says, flagrant abuses of monopoly power. No one subject to such charges will feel the same about the hotel. The fact that *all* hotels may do it does not diminish the sense of being cheated but should remind the seller there is a competitive advantage that can be secured over time in not doing it.

Robert Hershey (2002) in the *New York Times* (May 28 C10) quotes attempts by some New York hotels to add charges for 'power shortages in the West coast' and add-ons like $8 for housekeeping, $20 for amenities, $4 for a bottle of water left on the night stand, and so on. Car hire firms are also culprits, adding add-ons for additional mileage or exorbitant insurance changes. A cover story in *Business Week* (September 29, 2003) was devoted to how companies are ‘socking’ consumers with hundreds of hidden charges, giving rise to a new wave of consumer outrage. The same article points out that a California Superior Court judge has ordered Master-Card and Visa to refund $800 million to customers for charging hidden fees on purchases made in foreign currencies. The practices could, as the article points out, cost companies their customers. Customers often switch because their trust in the company has been shaken regardless of objective facts that indicate that remaining with the company would further the goal of maximizing expected utility. Charges may not be actually hidden but just non- transparent and this can be equally resented. Instead of price rises there can be a proliferation of ‘add-on’ fees in the service industries like banks hotels and credit card companies…. or even over billing that is not corrected without protests from the customer.

What all this means is that, when emotions are involved, a sober consideration of cost versus benefit is unlikely to explain subsequent behavior. It is the emotional commitment to equity, not knowledge of ethics per se, that motivates action. The claim by Socrates that, with knowledge comes virtue, is wrong since, as we all recognize, knowledge of the right thing to do will come to nought without the ‘will’ to do the right thing and the will is motivated (as Frank says) by emotional commitment. None of this requires experiments or surveys but is as obvious as the fact that we all feel anger at being insulted.

Applying the Nozick model

We can apply the Nozick (1993) model to the following case as a basis for applying the model to all cases where equity issues are involved. Every reader of this article would be able to describe similar cases so there is nothing unique about it. The speaker is a customer of Sprint, the telephone company.

> “We've been Sprint customers since we moved here 4 years ago. We need Sprint for the local connection and use it for international, too. For most of that time we've had a Sprint phone card which we've rarely used. Details of its charges have become obscured by time. A monthly statement caught my attention as it was much higher than usual. On checking I noticed an international call for 36 minutes was $70.02 yet a call made five days earlier to the same number for 38 minutes was $3.42. Quite a difference. Sprint Customer Service answered my complaint by saying that using their phone card made the $70 call. (We had made the call in town, rather than at home).

> It was explained that the phone card is a 'convenience card' purely for the customer's benefit. Were they really serious in thinking this reply would appear to justify their charge? Local charges on the card are 9 cents a minute but international charges are $2 per minute, a gross overcharge. My complaint that this is excessive and not explained in print drew the reply that it is explained in the literature that customers should call a 1-800 number to find the international charges. As I see it the so-called convenience card is not convenient at all except for Sprint as a money-maker. I had regarded the service as a sort of 'perk' for being a customer, whereby calls were charged through the home number at reasonable rates. Sprint Customer Service was sympathetic to my complaint and my bill was reduced by $30. Even so, I felt outraged at being overcharged and I felt cheated. When I put the phone down I cut the card up. No, I won't buy their Sprint International Card from K-Mart as they advised. I'll look for another brand, and when AT&T or some other company calls about cheaper international phone prices, I'll take the trouble to listen."

First of Nozick's *elements*: Principles. The respondent, in using Sprint for international calls, was being consistent with using Sprint for all her other calls at home. Since the Sprint card charges are automatically debited to her monthly Sprint bill, this coordination means charges are integrated with other phone charges made at home. The respondent could be relied upon to pay the bill and paying on time helps Sprint to offer the respondent an efficient service.

Second Element: (a) symbolic and (b) evidential utility (c) causal utility

- Symbolic utility: The $70.02 charged for international calls violated expectations as to what was reasonable in that the same call made from home would have cost $3.42. This huge difference was a sign of being cheated. The customer's reaction symbolized her adherence to equity and social norms. The justification offered by Sprint that the card was a 'convenience card, purely for the customer's benefit,' could only exacerbate the situation. Instead of justifying the situation, it suggested gratitude, rather than outrage, should have been the response. The additional claim that it was explained in the literature that customers should call a 1-800 number to find out about international charges was perceived as simply exploiting the customer's confidence, in that the respondent believed the charges would be reasonable. This trust confidence was reflected in the customer's belief that the service was a sort of 'perk' for being a customer whereby calls were charged through the home number at reasonable rates. The offer to reduce the bill by $30 could not be expected to placate the customer as it was analogous to saying: "We cheated you out of $65, but seeing you found us out, we will split the amount by which you were ripped off". The symbolic utility was so negatively high that the causal utility (the good international service obtained) would be virtually ignored.
- Causal utility: Her comments were very expressive of her feelings, with no mention of causal utility. The international service might have been very superior indeed but the instrumentality factor was drowned by the emotion of being ripped off by a company she felt she could trust. Suspicion in future will replace trust since trust assumes we are willing to 'lose' to an extent in one exchange knowing things will be all right in the longer term.
- Evidential utility: There is always a possibility that a customer, after he or she has cooled down, will return to buying the product. Whatever probability there was in going back to the Sprint card, the customer took action (cutting up the card) that ensured that the probability was zero. This was a gratifying gesture highly symbolic to her personally.

Third Element: Rationality of the beliefs themselves.

- Initially, the customer believed the Sprint card was a 'perk' for being a customer, with calls being charged through the home telephone number at reasonable rates. This belief formed the basis of the customer's expectations. The belief was based on the reputational capital Sprint had acquired. It was a more reasonable belief at the time than believing the card was a way of overcharging.
- The $70.02 charge for making the international call was excessive given it would have cost around $3.40 if made from the home. The belief about the charge was factual while the evaluation (belief) that the charge was excessive was more reasonable, given the circumstances, than that the charge was reasonable.
- The customer believed she was overcharged and had been cheated. This was a judgment based on her contrast with what she would have paid from home and a recognition of her feelings. Any alternative judgment would have also been tied to the judgmental process. The expected utility of so believing is higher than the 'hard to accept' belief that Sprint had been reasonable

We conclude that the negative symbolism would be so dominant that any positives would be ignored.

Nozick's model shows the customer following norms of rationality enough to make her choices meaningful. The Nozick model in itself would not necessarily predict her actions. For this we need to take account of any causal factors at work. These include the stimulus of the bill from Sprint that contained the charge that grossly exceeded expectations. Another causal factor explaining her behavior was the failure by Sprint to even attempt to justify the charge but asserted it was actually a convenience for the customer, as if the customer had no right to complain. *Sprint had made a sale but lost a customer.*

The problem would not have arisen if the customer had followed the rules of rational economic decision making since she would have been fully acquainted with the differences in charges between international calls from home and using the Sprint card. But even in the absence of such knowledge, the customer would not necessarily abandon the Sprint card but would check on the cost/benefit of using the Sprint International card. The Nozick model is a more realistic description of actual behavior than this, though it does not rule out consumers adopting enlightened self-interest, rather than sacrificing economic advantage. The fact is that the customer in this case did not even look into the possible economics of the Sprint International card and, even if told it was the best deal, this customer would not be buying.

Summary and Conclusion

Any model of decision-making that simply stresses outcomes in terms of losses and gains cannot explain the behavior of consumers whose sense of fairness has been violated. There are expressive reasons for action and not just instrumental reasons. The feeling of being cheated results in behavior that deviates from that describable in terms of maximizing material gains over material losses. Frank's commitment model is not the way to go as it tries to accommodate equity within the utility maximization paradigm. Elster (1990)and Quine (1987) would regard adding equity to the equation of losses and gains as being just unacceptable unless we are prepared to invent a new stipulated definition of self-interest. The paper recommends Nozick's model as more appropriate for describing and understanding consumer actions in respect to equity and other emotional issues in buying. But Nozick's model of rationality is one that market academics can exploit in research since it constitutes a more comprehensive set of variables than any so far.

Sellers themselves should not look simply at objective costs and benefits but need to take account of consumer perceptions of what is fair, since violation of what is considered fair can lead to the rejection of what the firm has to offer. This is all so apparent that it amounts to a truism. What is perhaps lacking is the recognition of how important it is and the failure of sellers to collect information on consumer equity perceptions which would often surprise managers by the latent anger. Equity issues are crucial as they tap deeply the emotions which can be decisive in continuing patronage. Also unless companies take account of perceptions of fairness, they are likely to find a diminution of reputational capital as trust erodes in their organization. Both loyalty and trust are “earned the hard way” and should not be jeopardized by consumer perceptions of ‘sharp practice.’

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