Saudi Journal of Business and Management Studies (SJBMS)
Scholars Middle East Publishers
Dubai, United Arab Emirates
Website: http://scholarsmepub.com/

ISSN 2415-6663 (Print)
ISSN 2415-6671 (Online)

A Review of Ethical Pricing and Its Perception

Husam Helmi[1*], Abraham Pius[2]
[1]Faculty of Business Management, University of Wales Trinity Saint David, UK
[2]Faculty of Business Management, Arden University, UK

***Corresponding author**
Husam Helmi

Article History
Received: 01.07.2018
Accepted: 12.07.2018
Published: 30.07.2018

DOI:
10.21276/sjbms.2018.3.7.7

Abstract: The paper is providing a theoretical review of key pricing approaches which were divided as the following: Price fixing, Predatory pricing, deceptive pricing, price discrimination, penetration pricing and unfair pricing. The paper also explores a price fairness framework to provide further clarity on how fair pricing is being developed and perceived. Several key points are provided as recommendations for firms to enhance their ethical and fair pricing practices based on the research conducted.
Keywords: Ethical pricing, price fairness, perception.

Ethical pricing

Customers across several service industries are usually sensitive towards pricing strategies adopted by firms which sometimes may be considered as unethical practices. It is discussed by Felix and Maximillian [6] that the perception of ethical or unethical pricing can be determined through the level of consideration of customers that consume offered products and services and their wider impact on other key stakeholders such as local communities.

According to [6] that pricing approaches are divided as the following:

- Price fixing
- Predatory pricing
- Deceptive pricing
- Price discrimination
- Penetration pricing
- Unfair pricing

Price fixing

Price fixing can be defined as an agreement amongst several firms within the same industry to standardize an offering price to become fixed. Furthermore, price fixing can occur when firms aim to control factors and conditions within a specific market leading to control of the levels of supply and demand which as a result can lead towards fixing prices. Price fixing can be established amongst firms through expressed or implied agreements [2]. In the United Kingdom it is prohibited for firms to have such agreements and can lead to breach of British competition law [8].

Predatory pricing

Predatory pricing refers to the adoption of a pricing strategy that aims to drive competition out of market by selling below the expected cost of price, the adoption of such a strategy can lead to creation of high entry barriers due to the unattractive profit rates by competing with existing firms in the market adopting such a strategy, it would make it difficult for competing firms to sustain a healthy profitability or even can drive firms to be out of business. Through pursuing such a strategy can lead to having a limited number of competitors in the market or even de facto monopoly. Across the European Union it is considered as a prohibited activity to be adopted by firms as it could lead to have market dominance and anticompetitive pricing [14].

Deceptive pricing

price deception can occur when firms provide signs of false communication indicating for competitive pricing to enable gaining more credibility and market power which can lead to firms' ability to charge higher prices for offerings that include more signs than unsigned offerings, this would discourage potential buyers from further search for more choices and increases the probability of making a buying decision. Furthermore, it has been suggested by [5] that deception as a theory can be considered as one of the main influencers in successful strategic interaction. However, the paper argues that deceptive pricing cannot be successful without having buyers that would be ready to be misled by the communicated statements [16]. Therefore, pricing deception is defined as a strategy that

aims to mislead potential customers through misleading pricing communicated by firms as discussed by [6].

Price discrimination

Price discrimination can occur when firms have a practice of charging different prices for certain products and services that have the same descriptions such as quality and quantity to different buyers in different markets [12]. This type of pricing approach is widely adopted by service providers such as transportations as they aim their offerings at different market segments. Capacity and limitation of availability can be one of the main indicators and influencers to increases and decreases in prices offered for different segments in the market. However, there are several ethical issues which may arise as a result of adopting such a strategy such as increases of the level of dissatisfaction of customers paying higher prices than others with the same level of service expectation and quality, and even can lead to bigger dissatisfaction if was clearly revealed to the public. Furthermore, other ethical issues can emerge such as the perception of customers about firms might develop to have it as lack of transparency, exploitation through charging unfair prices, and a clear breach of the equal treatment norm provided to customers [4].

Penetration pricing

Price penetration is a pricing strategy adopted by firms to set a starting low price to enable the most possible reach to the identified segments within a market and then to increase gradually as sales increase [3]. It has been discussed that penetration pricing as a strategy can be one of the most effective strategies to increase market share for either introducing a completely new offering to an existing market or expansion into a new market with an existing product, the main aims of adopting such a strategy are to maximize profitability and to enhance a product or service market share [13].

Unfair pricing

In economics there are two different industry structures and outcomes which can be explained as the following: Firstly, competitive structure that includes many competitors competing in the same market. Secondly, Monopolistic structure that has one firm operating in a market. The competitive structure is based on the fact that all firms are price takers as none of them can have complete power over competitors to control pricing across the market. Whereas, on the other hand, the monopolistic model is based on the fact that a single firm has complete control over the market which as a result power over the price, having such complete power can lead to excessive pricing which as a result can lead to loss of social resources and wealth transfer from the consumer to the firm [7].

Unfair pricing can occur when unethical pricing techniques are adopted to influence buyer's decision making such as manipulation or availability of information. Unfair pricing also can occur in the case of price gouging where prices are increased to the highest levels whilst consumers are significantly dependent on it with limited choices available [6].

Price fairness

Based on the different approaches presented above a conceptual framework of how price fairness is being developed is included in the work to identify gaps and offer key points for consideration in relation to pricing approaches for service offerings, the given framework is derived from the work presented by [17].

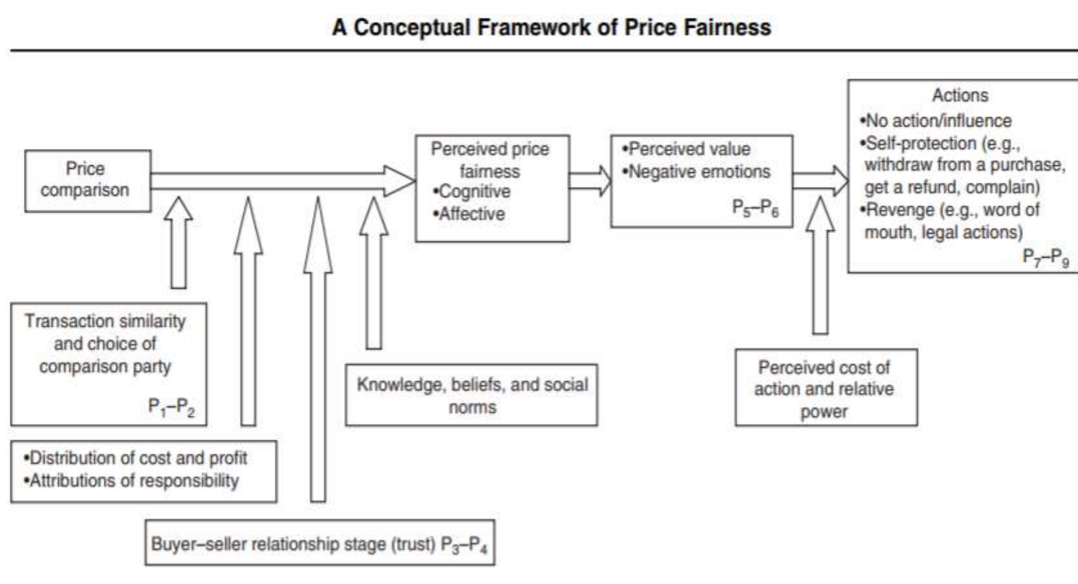

Fig-1: A conceptual framework of price fairness Source: [17]

The given framework suggests several stages starting from price comparison and ending with actions which clarify the buying process and determination of price fairness.

Price comparison

It is suggested that the price comparison stage can be viewed as one of the key significant factors in determining the level of price fairness, comparisons can be made as implicit and explicit. In the explicit case customers may compare prices directly with each other meaning that customers would be able to explicitly compare and highlight differences, this explicit comparison can be made to compare with other customers or even at different price points and times for a product or service received by the same customer. However, on the other hand price comparison can be also be made implicitly meaning that comparison is determined without direct identification of differences with other customers, price points and times. Implicit price comparison can be viewed as a belief of lower pricing expectation without specific price comparison [17].

Perceived price fairness

Perception of price unfairness and negative emotions are usually expressed because of experiencing unfair situation which may be caused by the firm's side. Furthermore, actions made by consumers because of unfair pricing and negative emotions are usually targeted at the seller side rather than other customers involved in the process. Therefore, price fairness is defined as a process of determining differences between the offer selling price of a product or service and comparison with other prices provided to different customers or with the same customer at different selling points or times [17].

Perception of unfair pricing

It has been indicated above in the given framework that there are several factors which may be considered as influences of unfair pricing:

Transaction similarity and choice of comparison party: It is stated that transaction similarity can occur when similar transactions are experienced by different parties, in this case price fairness or unfairness can be determined through identification of discrepancies in pricing between different parties or even the same party in different selling points and times as explained in the price comparison section. Furthermore, fairness or unfairness level can be also determined through the compared parties involved in the judgement process.

It is suggested transactions that have high level of similarity with price discrepancy can lead to an increase of price unfairness perception. Furthermore, similar comparison party has more effect on the judgement process in determining price fairness or unfairness than the customer's self-reference [17].

The level of trust in the firm's side has a significant impact on determining the level of price fairness. The development of the trust factor can be based on several factors as suggested by [11] which can be divided as the following:

- Ability: It refers to the ability of the firm's side to deliver expectation and perception of the trustor.
- Integrity: It refers to the availability of guiding principles and beliefs to provide a fair and acceptable offer for the trustor.
- Benevolence: It refers to the ability to determine the good practice to be provided to the trustor away from having profit motives as the main influence for practice targeted at the trustor party.

Social norms and knowledge of marketplace refer to the level of customers usually rely on their own level of knowledge of the marketplace, belief as well as the exchange of norms within society between sellers and buyers to determine the level of price fairness as suggested by [17]. Furthermore, [9] defined social norms as actions and beliefs of community members which seller's decisions may depend on in some way, and suggested that many scientists argued that social norms have significant influence in shaping behavior of economy and market outcomes including pricing. However, lowering prices for the sake of social norms only might not be compatible in all cases especially when considering maximization of economic activity as it may lead for different scenarios as identified in different experiments resulting in net decrease in the total amount of products and services demanded in the market as suggested by [1].

Perceived value and negative emotions

The perceived value of firm's offerings provided to the customer can lead to negative or positive impact on determining the level of price fairness, it is believed that customers estimate the value through different variables such as quality and quantity as well as other associated factors such as the level of trust between the buyer and seller, branding, transparency, and level of customer service rather than the actual cost to produce. Furthermore, the perceived value of firm's offerings can be realized through literal sense meaning that pricing is based on the associated benefits rather than cost [10–12]. Therefore, it is recommended that firms' focus on developing the perception that offerings are not only commodities, communication should be developed to enhance the perception that offerings have other associate values rather than the core offered product or service.

It is suggested that negative emotions can be developed because of unfair price perception leading to greater probability of dissatisfaction. Emotions can be

developed negatively or positively through several factors such as communication, comparison with previous experiences and with other parties [17]. Furthermore, studies have suggested that negative emotions can lead to changes in customer's behavior and is considered as the best predictor of complaints towards firms providing products and services [15].

Actions

The given conceptual framework of price fairness provided several points on the buyer's reaction which can be divided as the following:

- No action: In this situation the action of the buyer would be a no action as the perception of the unfair pricing experienced has no influence on proceeding or not proceeding with a transaction. However, buyer might develop feelings of unease [17].
- Self-protection: This situation may occur when buyer experience inequality in the process leading to negative emotions associated with the experience, buyers in this situation may complain, ask for refund or even communicate negatively. Buyer may search for information on other choices and their associated costs [17].
- Revenge: This situation may occur when buyer experience a high level of negative emotions associated with experience through the process of the transaction, emotions might be such as anger because of developing perception of unfairness in pricing, this would result for breakdown of the relationship between the buyer and the seller or even in some cases aggressiveness [17].

Conclusion and recommendations

The paper has explored several key pricing approaches which are considered as key for the development of ethical pricing. The paper has included brief definition of ethical pricing with further exploration into six different pricing approaches as well as inclusion of the price fairness framework leading to the development of several recommendations for firms to be considered during the process of development of pricing strategies.

Companies should be legally aware of unethical pricing matters such as the case of price fixing as an agreement between firms within the same industry to standardize the offered price in the market, this can be breaching certain laws such as the British competition law.

Unethical pricing measures can lead to breach of national or international legal systems such as the European Union which may lead to market dominance and anticompetitive pricing developed through the predatory pricing approach as discussed in the paper.

Firms should be aiming to enhance their transparency and establish clear communication with customers to avoid any unethical or illegal practice. For example, in the case of deceptive pricing there might be a possibility of having to mislead customers through signs or communications, this may cause less confidence of the customer as well as breach of certain legal requirements.

Customer dissatisfaction may increase in the case of price discrimination because of adopting different pricing based on different markets with having certain customers paying higher prices for the same level of service expectation and quality. Furthermore, more dissatisfaction can develop if this was exposed to the public leading to development of negative consequences such as perception of lack of trust in the firm, exploitation through charging unfair pricing, and breach of providing equal treatment provided to customers.

Firms should be aware and have in depth consideration in the case of having manipulation or availability of information to influence the customers' decision. Furthermore, unethical pricing may also occur in the case of price increase whilst customers are significantly dependent on the offered products and services with limitation of choices available.

The given conceptual framework explored in the paper has indicated several key points where fair or unfair pricing may have developed. These key points are developed to be generic recommendations for firms to follow to enhance their fair pricing practices:

- Firms should consider the stage of price comparison where customers look at other offerings and compare prices to determine the level of price fairness.
- Firms should find strategies and techniques to reduce the possibilities of customers' facing or experiencing unfair situations, as it has been noted that customers would express unfairness and negative emotions.
- Firms should work hard to develop the trust factor between the firm itself and the customers as it is viewed as one of the major factors in determining the level of price fairness. The paper has included key points to develop this trust factor which can be as the following: Firstly, ability to deliver the required and communicated perception and expectation. Secondly, maintenance of high levels of integrity through maintenance of guiding principles and beliefs to provide a fair and acceptable offer. Thirdly, benevolence through pursuing good practices to be provided away from having profit motives as the main influence.
- Firms should keep a balance between their profit-making motives and the given social norms to maintain levels of local acceptance.
- Firms should aim to develop communication to enhance customers' perception that offerings have

other associate values influencing pricing rather than assuming the price is only exchanged for the actual offered product or service only.

REFERENCES

1. Ariely, D., Gneezy, U. & Haruvy, E. (2017). Social Norms and the Price of Zero. J Consum Psychol. Accepted Author Manuscript at *Journal of Customer Psychology*.
2. Connor, J. (2004). Extraterritoriality of the Sherman Act and Deterrence of Private International Cartels. *SSRN Electronic Journal*.
3. Dean, J. (1976). Pricing Policies for New Products. *Harvard Business Review*. 54 (6): 141–153.
4. Elegido, J. (2011). The Ethics of Price Discrimination. *Business Ethics Quarterly*, 21(04), pp.633-660.
5. Ettingery, D. & Jehiel, P. (2009). A Theory of Deception. [PDF] ENPC. Available at: http://www.enpc.fr/ceras/jehiel/deception.pdf [Accessed 23 Dec. 2017].
6. Felix, C. & Maximilian, C. (2016). Evaluating Pricing Ethics in Grocery Retailing: The View of Harare Customers. *IOSR Journal of Business and Management*. 18(4), pp.30 - 33.
7. Gal, M. (n.d.). *Monopoly pricing as an antitrust offense in the U.S. and the EC: Two systems of belief about monopoly?*. [PDF] Available at: http://portal.idc.ac.il/en/ilea/previousmeetings/documents/michalgal.pdf [Accessed 23 Dec. 2017].
8. Gov.uk. (2017). Anti-competitive activity. [online] Available at: https://www.gov.uk/cartels-price-fixing/report-anticompetitive-activity [Accessed 23 Dec. 2017].
9. Hong, H. & Kacperczyk, M. (2009). The price of sin: The effects of social norms on markets. *Journal of Financial Economics*. 93(1), pp.15-36.
10. Macdivitt, H. & Wilkinson, M. (2012). *Value-based pricing*. New York: McGraw-Hill.
11. Mayer R.C., Davis J.H., Schoorman F.D. (1995), "An Integrative Model of Organizational Trust", *Academy of Management Review*, Vol. 20, n°3, 709-734.
12. Pride, W. & Ferrell, O. (2013). *Foundations of marketing*. Australia: South-Western, Cengage Learning.
13. Sije, A., & Oloko, M. (2013). Penetration pricing strategy and performance of small and medium enterprises in Kenya. *European Journal of Business and Social Sciences*, *2*(9), 114-123.
14. Sloughter & May. (2016). *An overview of the EU competition rules*. [PDF] Sloughter and May. Available at: https://www.slaughterandmay.com/media/64569/an-overview-of-the-eu-competition-rules.pdf [Accessed 23 Dec. 2017].
15. Tronvoll, B. (2011). Negative emotions and their effect on customer complaint behaviour. *Journal of Service Management*. 22(1), pp.111-134.
16. Wilson, C. (2004). *Price Deception, Market Power and Consumer Policy*. [ebook] Norwich: Centre for Competition Policy and School of Economics, University of East Anglia. Available at: http://competitionpolicy.ac.uk/documents/8158338/8256123/CCP+Working+Paper+04-1.pdf [Accessed 23 Dec. 2017].
17. Xia, L., Monroe, K. & Cox, J. (2004). The Price Is Unfair! A Conceptual Framework of Price Fairness Perceptions. *Journal of Marketing*. 68(4), pp.1-15.