

## **Consumer Expectations of Preferential Pricing in The US versus China**

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*This paper empirically examines consumer normative expectations of preferential pricing (price discount) in the US versus China. It was found that merit and personal relationship have a significant impact on expected discount in both countries, the impact of merit on expected discount is stronger in the US than in China, and that in China personal relationship has a stronger effect than merit on expected discount. Findings demonstrate both the similarities and differences in consumer expectations of preferential treatment in the US versus China and have implications for preferential treatment practices in these two countries.*

Preferential treatment (e.g., price discount or premium service offered to selected consumers) is a key aspect of relationship marketing that aims to enhance customer relationships (Gwinner, Gremler, & Bitner, 1998; Lacey, Suh, & Morgan, 2007). The impact of a preferential treatment on relationship quality is conditional upon whether the preferential treatment is consistent with consumer normative expectation of preferential treatment, that is, the preferential treatment that a consumer feels s/he is entitled to (i.e., ought to receive) given his/her relationship with the seller (e.g., being a frequent customer) (Boyd & Helms, 2005; Lacey et al., 2007; Wetzel, Hammerschmidt, & Zablah, 2014). The current research reports the results of a scenario experiment designed to compare consumer normative expectations of preferential treatment in the US versus China. In the extant literature, it has been suggested that a focus on merit-based preferential treatment (e.g., loyalty programs) versus personal-based preferential treatment (e.g., renqing or favor doing) is a key difference between relationship marketing in the US versus China (Ambler, Styles, & Xiucun, 1999; Lovett, Simon, & Kali, 1999; Wu & Chiu, 2016). The focus of relationship marketing in the US on merit-based preferential treatment is evident in De Wuff et al.(2001:35) definition of preferential treatment as “consumer’s perception that a retailer treats and serves its regular customers better than non-regular customers”: This definition appears to assume that the sole basis for preferential treatment is customer relative status or merit (regular versus non-regular customers). In contrast, relationship marketing in China is based on guanxi, which can be defined as personal relationships with implications for continual exchange of preferential treatments or favors (renqing) (Ambler et al., 1999; Lovett et al., 1999; Wu & Chiu, 2016).

An important yet unanswered question is whether and to what extent this difference in relationship marketing practice reflects differences in consumer normative expectations of preferential treatment in these two countries. Brady et al. (2012) noted that in the US customers sometimes receive preferential treatment out of their friendship with the supplier firm’s employees, but such personal-based preferential

treatment is ethically and/or legally problematic and thus should be discouraged (Brady et al., 2012). However, if consumers in the US in fact expect personal-based preferential treatment to a significant extent, then firms in the US may have undermined the role of personal-based preferential treatment as a relationship building tool. On the other hand, US firms entering China are often advised on the importance of personal-based (guanxi-based) preferential treatment in business dealings (Gu, Hung, & Tse, 2008; Wu & Chiu, 2016). But if consumers in China also expect merit-based preferential treatment to a significant extent, then US firms can effectively extend their current merit-based preferential treatment system to this market.

Accordingly, the current research seeks to contribute by examining whether and how American and Chinese consumers differ with regard to their normative expectations of merit-based versus personal-based preferential treatment. The preferential treatment practices being examined are price discount offered to frequent customers (merit-based preferential pricing) versus price discount offered to customers who are personal friends of the seller (personal-based preferential pricing). The general proposition to be tested is that consumer normative expectations of merit-based and personal-based preferential treatment are universal; the difference between US and China is in the relative magnitude of normative expectations of these two types of preferential treatment.

## **CONCEPTUAL BACKGROUND AND HYPOTHESES**

### **Right versus Duty as Basis for Normative Expectations of Merit-Based versus Personal-Based Preferential Treatment**

Merit-based and personal-based preferential treatment are based on two distinct ethical concepts that have different weight in the US versus China. Merit-based preferential treatment is based on right, that is, an entitlement to a specific treatment based on one's contribution. Consumer normative expectations of preferential treatment reflect the consumer feeling of being entitled to a special treatment based on his/her contribution to the seller's sales and profit relative to other consumers (Boyd & Helms, 2005; Wetzel et al., 2014). For example, relative to a non-frequent customer a frequent customer has contributed more to the seller's sales and profit and thus is entitled to a lower price in return.

Personal-based preferential treatment is based on duty, that is, obligations that arise out of one's particular place in life (e.g., duty to help a friend). For example, a consumer who is a personal friend of the seller may expect a price discount out of the seller's duty to care for a friend (Wu & Chiu, 2016).

### **Individualism–Collectivism and Normative Expectations of Merit-Based versus Personal-Based Preferential Treatment in The US versus China**

National culture characterizes the social ethos of a group and may be defined as the collective programming of the mind (Hofstede, 1991). The individualism–collectivism dimension has by far received the greatest attention in cross-cultural research, with the US and China representing classic societies with individualistic and collectivistic culture, respectively (Hofstede, 1980; Oyserman, Coon, & Kimmelmeier, 2002). The core element of individualism is the assumption that individuals are independent of one another (Oyserman et al., 2002). According to Hofstede (1980), individualism stands for a society in which the ties between individuals are loose: Everyone is expected to look after him/herself and her/his immediate family only. Accordingly, people in individualist cultures (e.g., US) emphasize individual rights. Indeed, Hofstede (1980) defined individualism as a focus on rights above duties.

In contrast, collectivism views an individual as part of a web of social relationships. The core element of collectivism is the assumption that groups bind and mutually obligate individuals (Oyserman et al., 2002). According to Hofstede (1980), collectivism stands for a society in which people are integrated into various in-groups, which support and protect them in exchange for loyalty. Thus, while people in individualist cultures (e.g., US) emphasize individual rights, people in collectivist cultures (China) emphasize duty or obligations to significant others beyond immediate family. In China, *guanxi*, commonly conceptualized as interpersonal ties with implications of reciprocal exchange of personal-

based preferential treatments or favors based on humanized obligation (*renqin*), is a direct outgrowth of the Chinese collectivist culture (Gu et al., 2008; Hwang, 1987; Wu & Chiu, 2016).

To the extent that merit-based preferential treatment is based on right and personal-based preferential treatment, duty; the different emphasis in rights versus duties in individualist versus collectivist cultures implies that merit should have a stronger impact on consumer normative expectations of preferential treatment in the US while personal relationship should have a stronger impact on consumer normative expectations of preferential treatment in China. However, right and duty are universal ethical concepts that are relevant to every society and culture; accordingly, so are normative expectations of merit-based and personal-based preferential treatment. Thus although extant research often emphasizes the role of personal-based preferential treatments (personal favors) as a unique mechanism for *guanxi* to affect business dealings in China (Ambler et al., 1999; Lovett et al., 1999; Wu & Chiu, 2016), some authors have speculated that such mechanism is salient and popular in many cultures (Gu et al., 2008). However, few, if any, empirical research has tested this speculation in a consumer context.

Accordingly, the current research tests the argument that consumer normative expectations of merit-based and personal-based preferential treatment are universal; the difference between US and China is in the relative magnitude of normative expectations of these two types of preferential treatment. The preferential treatment being examined is price discount offered to frequent customers (merit-based preferential pricing) versus friends (personal-based preferential pricing). The following hypotheses are proposed,

H1: Merit and personal relationships have a significant impact on consumer expectations of price discount in both the US and China.

H2: The impact of merit on consumer expectations of price discount is stronger in the US than in China.

H3: The impact of personal relationship on consumer expectations of price discount is stronger in China than in the US.

H4: In the US, merit has a stronger effect than personal relationship on consumer expectations of price discount.

H5: In China, personal relationship has a stronger effect than merit on consumer expectations of price discount.

## **EMPIRICAL DESIGN**

To test the above hypotheses, we conducted a scenario-based experiment. Experimental scenarios have been used extensively in marketing research (Campbell, 1999; Kukar-Kinney, Xia, & Monroe, 2007; Kwak, Puzakova, & Rocereto, 2015; Palmatier, Jarvis, Bechkoff, & Kardes, 2009). Because scenarios can be used to manipulate aspects of the information available to participants, while controlling for potential nuisance factors (Collie, Bradley, & Sparks, 2002), their use is particularly suited to research on theories, such as the current research.

The experiment has three independent variables with two levels each: Merit (High: Frequent customer, Low: Infrequent customer), Personal relationship (High: Friend-customer, Low: Non-friend), and Country (US, China). The dependent variable is consumer normative expectation of price discount. The scenario incorporates the merit and personal relationship factors. We capture the country factor by conducting the experiment in the US and China.

The scenario reads as follows,

Ms. A is out of town for pleasure. She comes to stay at a local hotel for one day. She pays for her hotel expenses with her own money.

At this privately-owned hotel, the regular price is \$100 per night for a standard room. At his/her discretion, the hotel owner can offer a lower room price to certain customers.

Ms. A is an infrequent customer who does not know the hotel owner personally [a frequent customer who does not know the hotel owner personally, an infrequent customer who is a personal friend of the hotel owner, a frequent customer who is also a personal friend of the hotel owner]. She asks the hotel owner to give her a discount.

In your opinion, what percentage discount of the regular price for a regular room should the hotel owner offer to Ms. A, that is, the discount level that you feel she deserves? Please write a number between 0 (no discount) and 100 (free room) in the space below:

\_\_\_\_\_ % discount of the regular price

The hotel setting is appropriate because hotel pricing often varies considerably across customers. The customer was depicted to pay with own money so as to make the discount matters to the customer personally. The decision maker was depicted to be the owner of a privately-owned hotel who presumably has full authority over the preferential treatment (e.g., discount) being offered. In comparison, a hotel staff may be perceived to be constrained in the preferential treatment s/he is authorized to offer. In practice, such role constraints are prevalent and will likely affect consumer expectations of the kind and the level of preferential treatment that is feasible. However, in the current research we control this factor in order to focus on the impact of merit relative to personal relationship on consumer expectations of preferential treatment without role constraints. The regular price was set at \$100, which was roughly the average price of a mid-range hotel in the US (in the Chinese version the price was converted to an equivalent amount in Yuan). Here the respondents played the role of bystanders who indicate what they think ought to happen. Consumer normative expectation of price discount was measured by asking the respondents to indicate the discount level that they felt the customer deserves (desirable outcome). This arguably provides a more objective measure of normative expectations than having the respondents play the role of the customer who indicate the discount level that they feel they deserve (desired outcome). Equivalence across countries was evaluated using a back-translation procedure.

The respondents were undergraduate business students in the US and Macao (China). They were approached in the classroom and asked to do a survey. The respondents were randomly assigned into one of the four experimental conditions. The total sample size was 396; 58% male, 42% female. The US sample size was 204; 60% male, 40% female. The Chinese sample size was 192; 56% male, 43% female.

## **FINDINGS**

### **Preliminary Analysis and Transformation of the Dependent Variable**

The main statistical tool used to test the hypotheses was univariate analysis of variance, which assumes that the dependent variable be normally distributed within groups. A test of normal distribution indicated significant non-normality, as shown by the level of skewness (2.729) and kurtosis (9.637) that significantly exceeded 1. Histogram showed that the primary source of non-normality is the presence of some outliers (e.g., extremely high level of expected discount). Since univariate analysis of variance is particularly sensitive to outliers, outliers should be transformed or removed. In this case, we conducted a natural logarithm of the dependent variable to transform the outliers. We named the transformed variable DiscountLn. This variable passed the test of normality, as shown by the level of skewness (.975) and kurtosis (.653) that were lower than 1. In the hypothesis testing below, the dependent variable is Discount Ln.

### **Hypothesis Testing**

To identify the overall patterns of consumer normative expectations of price discount we first ran a univariate analysis of variance for the total sample, with Merit, Personal relationship, and Country as independent variables and expected discount (DiscountLn) as the dependent variable. Then to further examine patterns of consumer normative expectations of price discount in each country we ran univariate analyses of variance for the two country samples, with Merit and Personal relationship as independent variables and expected discount (DiscountLn) as the dependent variable.

In all of the above analyses gender was entered as a covariate, for gender may affect normative expectation of preferential pricing. For example, it has been shown that women are more sensitive to price changes than men (Maxwell, Lee, Anselstetter, Comer, & Maxwell, 2009), and that men and women respond differently to price discount offers (Barone & Roy, 2010).

The results are shown in Table 1 below,

**TABLE 1**  
**UNIVARIATE ANALYSIS OF VARIANCE: TESTS OF BETWEEN-SUBJECTS EFFECTS**

Dependent Variable: Discount Ln

Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared
Corrected Model	150.518 <sup>a</sup>	8	18.815	21.358	.000	.306
Intercept	221.366	1	221.366	251.292	.000	.394
Gender (Covariate)	1.766	1	1.766	2.005	.158	.005
Merit	36.639	1	36.639	41.592	.000	.097
Personal	67.217	1	67.217	76.304	.000	.165
Country	15.139	1	15.139	17.186	.000	.043
Merit * Personal	23.402	1	23.402	26.566	.000	.064
Merit * Country	3.570	1	3.570	4.052	.045	.010
Personal * Country	.444	1	.444	.503	.478	.001
Merit * Personal * Country	.002	1	.002	.002	.965	.000
Error	340.912	387	.881			
Total	2865.494	396				
Corrected Total	491.430	395				
US Corrected Model	75.527 <sup>b</sup>	4	18.882	22.278	.000	.309
Intercept	123.544	1	123.544	145.765	.000	.423
Gender (Covariate)	.177	1	.177	.209	.648	.001
Merit	32.797	1	32.797	38.696	.000	.163
Personal	30.082	1	30.082	35.493	.000	.151
Merit * Personal	12.304	1	12.304	14.517	.000	.068
Error	168.665	199	.848			
Total	1292.234	204				
Corrected Total	244.192	203				

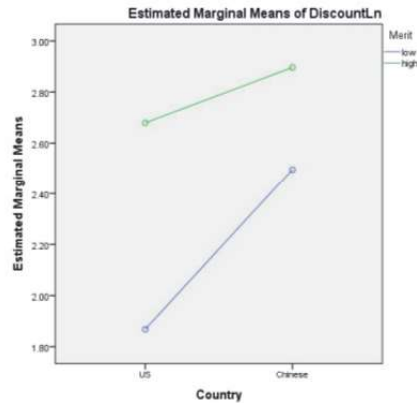
Chinese	Corrected Model	64.895 <sup>c</sup>	4	16.224	18.013	.000	.278
	Intercept	97.344	1	97.344	108.082	.000	.366
	Gender (Covariate)	5.414	1	5.414	6.012	.015	.031
	Merit	7.964	1	7.964	8.842	.003	.045
	Personal	38.580	1	38.580	42.836	.000	.186
	Merit * Personal	11.480	1	11.480	12.746	.000	.064
	Error	168.422	187	.901			
	Total	1573.260	192				
	Corrected Total	233.317	191				

- a. R Squared = .306 (Adjusted R Squared = .292)
- b. R Squared = .309 (Adjusted R Squared = .295)
- c. R Squared = .278 (Adjusted R Squared = .263)

Hypothesis 1 predicts that merit and personal relationship have significant effects on consumer expectations of price discount in both the US and China. The results of univariate analysis of variance for the country samples indicate that there were significant effects of Merit and Personal on expected discount in both countries. In the US, there was a significant effect of Merit,  $F(1,199) = 38.70, p = .00$ , and of Personal,  $F(1,199) = 35.49, p = .00$ . Similarly, in China there was a significant effect of Merit,  $F(1,187) = 8.84, p = .003$ , and of Personal,  $F(1,187) = 42.83, p = .00$ . In short, respondents in both countries expected a frequent customer to receive a higher discount than an infrequent customer and a friend-customer to receive a higher discount than a non-friend. Hypothesis 1 was supported.

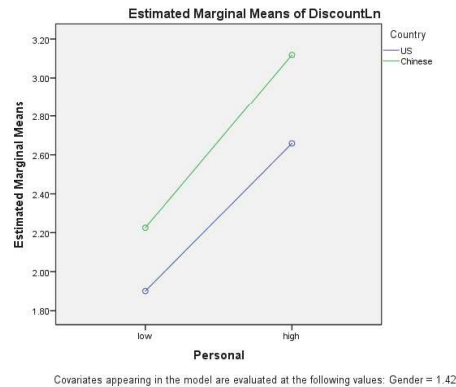
H2 predicted that the effect of merit on consumer expectations of price discount is stronger in the US than in China. The results of univariate analysis of variance for the total sample showed that there was a significant Country – Merit interaction,  $F(1,387) = 4.05, p = .045$ . Figure 1 illustrates the effect: The slope of Merit was steeper in the US than in China, suggesting that Merit has a stronger effect on expected discount in the US than in China. A comparison of partial eta squared for Merit in the US versus China confirms this result. Merit accounted for 16.3% of variance in expected discount in the US versus 4.5% in China (partial eta squared for Merit in the US and China was .163 and .045, respectively), indicating that the effect of Merit in the US was 3.6 times larger than that in China. Hypothesis 2 was supported.

**FIGURE 1**  
**COUNTRY-MERIT INTERACTION ON EXPECTED DISCOUNT**



H3 predicts that the impact of personal relationship on consumer expectations of price discount is stronger in China than in the US. Contrary to this hypothesis, the results of univariate analysis of variance for the total sample showed that the Country–Personal interaction was insignificant,  $F(1,387) = .50, p = .48$ . Figure 2 illustrates the effect: The slope of Personal was slightly steeper in China than in the US, suggesting that Personal has a slightly stronger effect on expected discount in China than in the US. The results of univariate analyses of variance for the country samples showed that the effect size of Personal in China was somewhat larger than that in the US (partial eta squared was .186 versus .151). Overall, the results were in the direction of the prediction of H3, but were not statistically significant.

**FIGURE 2**  
**COUNTRY-PERSONAL RELATIONSHIP INTERACTION ON EXPECTED DISCOUNT**

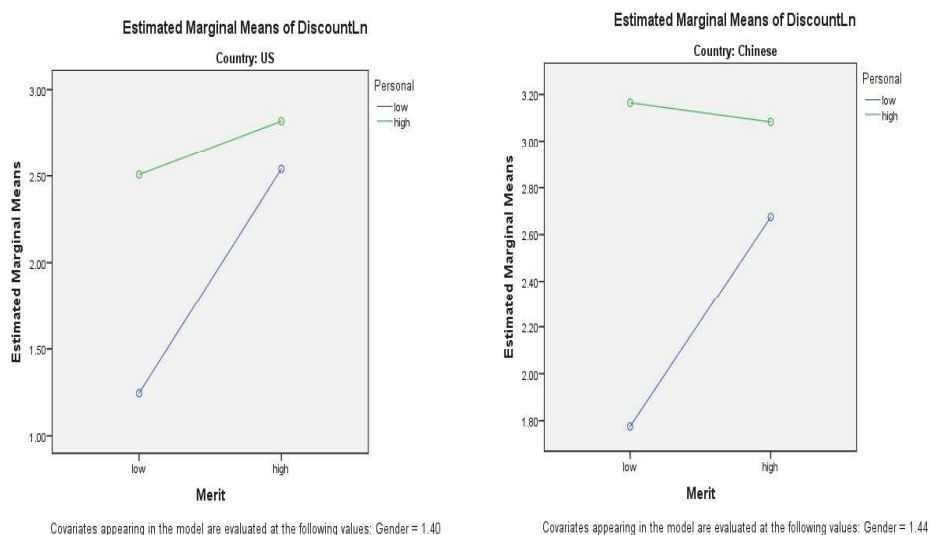


H4 predicts that in the US, merit has a stronger effect than personal relationship on consumer expectations of price discount. Partial eta squared of Merit and Personal was .163 and .151, respectively, indicating that Merit has only a slightly stronger effect on expected discount than Personal. To further determine whether this difference was significant we conducted an independent sample t-test in which we compared the mean expected discount in the (high merit, low personal) versus the (low merit, high personal) condition. If the effect of Merit was significantly stronger than Personal, the mean expected discount in the (high merit, low personal) condition should be significantly higher than in the (low merit, high personal) condition. However, the results showed that the two means were not significantly different,  $t(103) = .38, p > 1$ . H4 was not supported.

H5 predicts that in China, personal relationship has a stronger effect than merit on consumer expectations of price discount. Partial eta squared of Merit and Personal was .178 and .043, respectively, indicating that the effect of Personal was 4 times larger than that of Merit. To confirm this result, we conducted an independent sample t-test in which we compared the mean expected discount in the (high merit, low personal) versus the (low merit, high personal) condition. If the effect of Personal was significantly stronger than Merit, the mean expected discount in the (low merit, high personal) condition should be significantly higher than in the (high merit, low personal) condition. The results showed that the mean expected discount in the (low merit, high personal) condition was significantly higher than in the (high merit, low personal) condition,  $t(93) = -2.85, p = .005$ . H5 was supported.

An examination of Merit-Personal interaction reveals more subtle differences pertaining to the magnitude of the effect of Merit relative to Personal in each country. There was a significant Merit-Personal interaction in the US,  $F(1,199) = 14.52, p = .00$  and in China,  $F(1,199) = 12.75, p = .00$ . However, the patterns of Merit-Personal interaction were different between the two countries, as shown in Figure 3. In both countries, Merit increased expected discount when Personal was low. But when Personal was high, Merit continued to increase expected discount in the US while slightly reduced expected discount in China. This reflects differences in the strength of the effect of Merit relative to Personal in the two countries. In the US the effect of Merit was strong enough relative to Personal, such that even when Personal was high Merit still had an effect on expected discount. But in China Merit had a much weaker effect relative to Personal, such that when Personal was high the effect of Merit became nil or even negative.

**FIGURE 3**  
**MERIT-PERSONAL RELATIONSHIP INTERACTION ON EXPECTED DISCOUNT IN THE US AND CHINA**



### Other Findings

The results of univariate analysis of variance for the total sample showed a significant main effect of Country on expected discount,  $F(1,387) = 17.19, p = .00$ . Expected discount (average across all four conditions) was higher in China than in the US. One possible explanation is that relative to individualists (US), collectivists (China) put more emphasis on the maintenance of harmonious relationship (Hofstede, 1980; Oyserman et al., 2002); hence, they are more inclined to oblige to a request from a customer for a price discount as a gesture of goodwill and an indication of cooperativeness. An alternative explanation is



relative affluence (Maxwell 2009). Consumers in less affluent China are more price sensitive, and thus in general have higher expectations for price discount.

## DISCUSSION

In the extant literature, it has been suggested that a focus on merit-based preferential treatment (e.g., loyalty programs) versus personal-based preferential treatment (e.g., renqing or favor doing) is a key difference between relationship marketing in the US versus China (Ambler et al., 1999; Gu et al., 2008; Lovett et al., 1999; Wu & Chiu, 2016). An important yet unanswered question is whether and to what extent this difference in relationship marketing practice reflects differences in consumer normative expectations of preferential treatment in these two countries. The current research addresses this question by examining whether and how American and Chinese consumers differ with regard to their normative expectations of merit-based versus personal-based preferential treatment. The preferential treatment practices being examined are price discount offered to frequent customers (merit-based preferential pricing) versus price discount offered to customers who are personal friends of the seller (personal-based preferential pricing). Drawing on the concepts of right and duty- universal ethical principles that vary in their relative importance in individualist versus collectivist societies, we hypothesize that merit and personal relationship affect consumer normative expectation of preferential pricing in both the US and China, albeit to different extent: Merit has a greater role in the US while personal relationship has a greater role in China.

The results of a scenario experiment showed that as expected, merit and personal relationship have a significant impact on expected discount in both the US and China, the impact of merit on expected discount is stronger in the US than in China, and that in China personal relationship has a stronger effect than merit on expected discount. However, the impact of personal relationship on expected discount in the US was stronger than expected. Specifically, the impact of personal relationship on expected discount in the US is as strong as in China. Moreover, in the US personal relationship has as strong an impact as merit on expected discount. It was also found that the patterns of Merit-Personal interaction were different between the two countries. In both countries, Merit increased expected discount when Personal was low. But when Personal was high, Merit continued to increase expected discount in the US while slightly reduced expected discount in China. Lastly, though not hypothesized it was found that expected discount (average across conditions) was higher in China than in the US. This finding appears to reflect the higher emphasis of Chinese people on the maintenance of harmonious relationship (Hofstede, 1980; Oyserman et al., 2002) and/or their higher level of price sensitivity (Maxwell 2009).

It should be noted that these findings pertain to a particular type of preferential treatment (price discount in hotels). Moreover, the scenario experiment was constructed to ignore role constraints that likely affect consumer expectations of the kind and the level of preferential treatment that is feasible.

Notwithstanding their limitations, the findings indicate that the current focus of preferential treatment practices in the US does not fully reflect consumer normative expectations. Relationship marketing in the US has traditionally focused on merit-based preferential treatment (e.g., loyalty programs). The finding that in the US personal relationship has as strong an impact as merit on consumer expectations of preferential treatment (e.g., preferential pricing) suggests that firms in the US may have undermined the role of personal-based preferential treatment as a relationship building tool. Notwithstanding potential problems associated with personal-based preferential treatment (e.g., corporate liability and misconduct) (Brady et al., 2012), this type of preferential treatment has an important advantage over merit-based preferential treatment. Personal-based preferential treatment is more likely viewed as discretionary behavior offered out of freewill (i.e., as a personal favor) while merit-based preferential treatment is more likely viewed as role-based behavior offered out of the supplier's policies (e.g., price discount offered as part of a loyalty program). Accordingly, personal-based preferential treatment will more likely generate gratitude-based reciprocal behaviors that are beneficial to firms, such as loyalty and increased purchase (De Wulf et al., 2001; Palmatier et al., 2009; Wetzels et al., 2014). On the other hand, scholars have warned that the ubiquity of merit-based preferential treatment in the US has led to an increase of entitled

behaviors from customers that are costly to firms, such as tough negotiation and constant demand for extra efforts from suppliers (Wetzel et al., 2014). Accordingly, the potential role of personal-based preferential treatment as a supplement and/or alternative to merit-based preferential treatment is an issue worthy of further investigation.

Firms entering China are often advised on the importance of personal-based (guanxi-based) preferential treatment in business dealings (Gu et al., 2008; Wu & Chiu, 2016). The finding that in China personal relationship has a stronger effect than merit on consumer expectations of preferential treatment supports this advice but also suggests that merit-based preferential treatment is relevant in this market. This implies that to a certain extent US firms can effectively extend their merit-based preferential treatment programs to this market. The finding that in the absence of strong personal relationship, merit has a significant impact on consumer expectations of preferential treatment in China indicates that merit-based preferential treatment is most relevant for customers who lack strong personal relationships with the firm's employees.

The finding that on average, expected discount is higher in China than in the US implies that firms entering China should set prices to allow for a higher level of subsequent price adjustments, and they should give their frontline staff greater flexibility in adjusting prices in response to customer requests.

This research also has implications for the study of relationship marketing in international contexts. Recognizing the role of personal-based preferential treatment in the US and the role of merit-based preferential treatment in China enables us to see the compatibility between Western and Eastern business relationships, which heretofore has often been seen as qualitatively different. For example, the findings indicate that friendship with expectations for personal favors is common in all cultures and is a powerful influencer of business procedures. Thus, while extant research has focused on the differences in relationship marketing in the US versus China (Lovett et al., 1999; Wu & Chiu, 2016; Yang, 1994; Yeung & Tung, 1996), this paper encourages a different kind of comparative analysis that emphasizes both the similarities and the differences between the two systems. Thus, scholars may examine the extent to which these systems are culturally compatible and determine the extent to which the two constitute substantively different approaches to preferential treatment.

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