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Examining the differential effects of social and economic rewards in a hotel loyalty program

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ABSTRACT

This study aims to explore how differently social and economic rewards of a hotel loyalty program impact program loyalty and further examine how the differential impact produces relational behaviors. Findings suggest that economic rewards drive program loyalty more strongly than social rewards because members tend to stay with a loyalty program due to its economic reward. However, social rewards facilitate relational behaviors more than economic rewards, given that social rewards intrinsically motivate members to actively defend and support a program provider through affective commitment. The results provide loyalty program operators with insight into how to balance social and economic rewards in designing loyalty programs and suggest how hotels amplify relational value to establish sustainable relationships with customers.

1. Introduction

The concept of relationship marketing is prevalent in the hospitality industry and pertains to the mechanism by which service firms develop and sustain long-term relationships with valued customers (Morgan and Hunt, 1994). Relationship marketing allows service providers to treat selective customers differently with customized value and entertain the constantly changing service needs of customers, therefore creating competitive marketing advantages over competitors (Peppers and Rogers, 2004; Vargo and Lusch, 2004).

The ubiquity of relationship marketing gives rise to the prolificacy of loyalty or reward programs, which provide economic and social or customized rewards for members in proportion to their degree of patronization (Lacey et al., 2007). The objective of loyalty programs is to retain valued customers with a firm. Loyalty programs are effective in making customers feel special, important, and appreciated by rewarding them with preferential incentives (Lewis, 2004). Considering that loyalty programs have become popular in the marketplace, their roles are considerably examined in the hospitality literature (e.g., Berezan et al., 2015; Hu et al., 2010; Mattila, 2006; McCall and Voorhees, 2010; Shoemaker and Lewis, 1999; Tanford, 2013). The previous literature have examined the concepts of reward timing, membership tiers, reward program value, commitment, switching costs, and company loyalty to understand the impact of reward programs. For example, membership tiers in hotel reward programs are reported to differentially affect loyalty indicators such as emotional commitment, switching costs, and attitudinal and behavioral loyalty. In particular, high-tiered members have more favorable perceptions of loyalty indicators than do low-tiered members (Tanford, 2013). Loyalty programs are also reported to strengthen customer recognition of switching costs, therefore improving customer commitment and retention (Bendapudi and Berry, 1997). Furthermore, reward timing (immediate vs. direct rewards) is found to have a differential effect on reward program value that predicts program loyalty (Hu et al., 2010). Immediate rewards (i.e., discount features) better allow hotel guests to recognize the value of loyalty programs than delayed rewards (i.e., cumulative points to redeem). Delayed rewards are reported to work better than immediate rewards only when guests are satisfied.

The effectiveness of a loyalty program is contingent upon the customer recognition of its benefits or rewards (Melancon et al., 2011; Mimouni-Chaabane and Volle, 2010). Customers tend to keep subscribing to loyalty programs because of economic benefits they gain (Peterson, 1995). However, monetary incentives alone do not sufficiently explain customer commitment to the loyalty program. Apart from economic rewards, loyalty programs retain their members by social rewards such as preferential treatment and personalized recognition and attention (Berry 1995; Gwinner et al., 1998). The economic rewards of loyalty programs are usually

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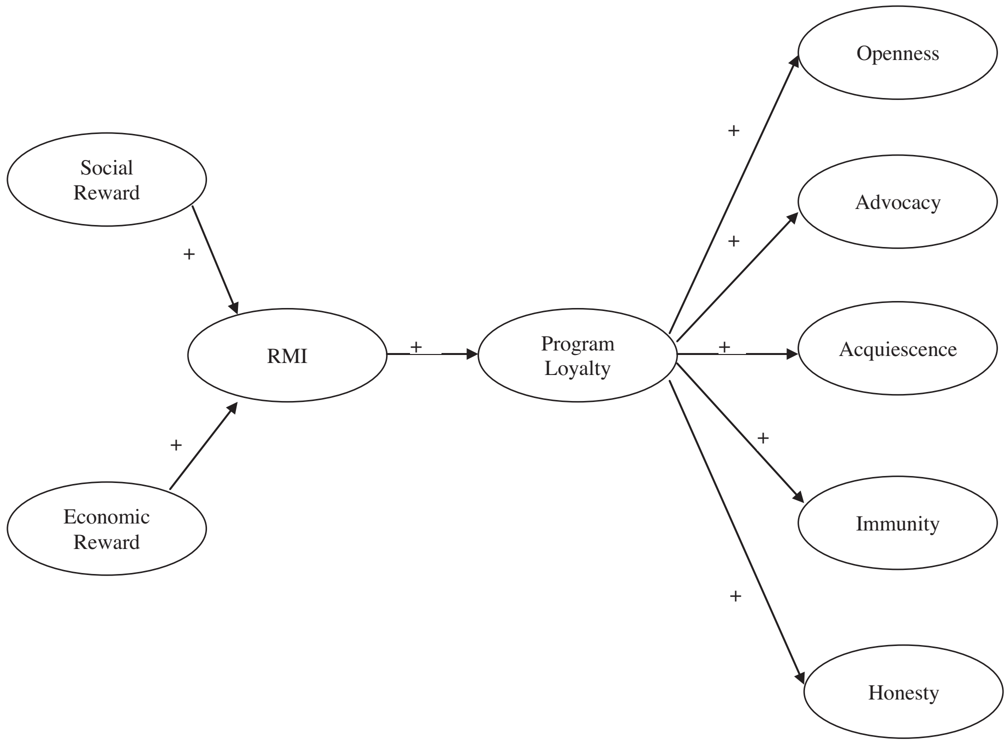

Fig. 1. A proposed conceptual model for SR-RMI and ER-RMI groups.

criticized for being easily duplicated by competitors and the high implementation cost (O'Malley, 1998). Tricky redemption policies, such as blackout dates and expiry dates, further cast doubts on the utility of financial benefits (Noble and Phillips, 2004). By contrast, social rewards of loyalty programs build stronger relationships with members than economic incentives because social benefits enhance intrinsic reasons for sustaining and reinforcing emotional commitment and attachment (Deci and Ryan, 1985). However, economic rewards also strengthen trust and commitment and are particularly effective in establishing an initial relationship with customers (Peterson, 1995). Melancon et al. (2011) state that economic rewards lead to continuance commitment because program members fear the loss of rewards. On the contrary, social rewards in hotel loyalty programs reinforce the members' perceptions of affective commitment through emotional attachment to the hotel.

Perceived benefits or rewards are the key drivers of loyalty programs in that the rewards cultivate customer loyalty and long-term relationship with the loyalty program provider (Bolton et al., 2004). The aforementioned literature indicates that both social and economic rewards affect the relationship of customers with an organization through different mechanisms. Nonetheless, the differential effects of economic and social rewards on loyalty programs have not been addressed substantially in the existing hospitality literature. In response to such a research gap, the present study explores the differential effects of economic and social rewards in reward programs and delves into the perceptions of customers of the social and economic aspects of rewards of loyalty programs to understand the differing impacts of reward types on the relationship between customers and the program provider. Hence, this study manipulates social and economic rewards to create two groups [economic reward-based relationship marketing investments (ER-RMI) and social reward-based relationship marketing investments (SR-RMI) groups] using a scenario-based survey. This approach allows this study to examine how differently SR-RMI and ER-RMI groups exhibit reward program loyalty and relational behaviors (Fig. 1). Considering that loyalty programs aim to maintain long-term relationships with their members, the concept of relational worth (comprising advocacy, immunity, openness, acquiescence, and honesty) is adopted to measure relational customer behaviors in detail.

2. Literature review

2.1. Economic and social rewards and RMI

Cognitive evaluation theory (CET) suggests that reward types or contexts affect motivation differently (Deci and Ryan, 1985). In the context of loyalty programs, motivation is defined as the intention of a customer to sustain an enduring relationship with a firm (Melancon et al., 2011; Noble et al., 2014). CET proposes two types of rewards: social/internal and economic/external rewards. Internal rewards concern intrinsic enjoyment of a behavior and the reasons for sustaining such behavior (Melancon et al., 2011). Internal rewards are comparable to social rewards in the context of club loyalty program (Noble et al., 2014), such as preferential treatment (in the form of exclusive access to a particular service, for example), personalized recognition from and friendship with service staff, and special services (Gwinner et al., 1998). In contrast, external rewards are signified by monetary rewards in return for desired behavior. Money and prizes are generally considered external rewards in the psychology literature (Rummel and Feinberg, 1988). The concept of social and economic rewards is also defined by the typology of relational benefits comprising social, confidence, and special treatment benefits, which is based on in-depth interviews with customers in the various service industries (Gwinner et al., 1998). Social benefits are fueled by personal recognition, friendship, and rapport (Berry, 1995), while confidence benefits are perceived when customers trust the offer of a provider with a low perception of risk and anxiety (Gwinner et al., 1998). Social and confidence benefits that concern intrinsic motives for emotional commitment and attachment can also be regarded as social rewards. The special treatment benefits described by Gwinner et al. (1998) pertain to economic