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Role of gratitude and obligation in long term customer relationships

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ABSTRACT

This paper examines the role of gratitude and obligation in customer relationships. We surveyed 398 customers exiting grocery and clothing stores in Ahmedabad and Jaipur cities in India, after they had finished shopping. We analysed their responses using structural equation modelling (SEM). We found that social and structural investments by sellers created gratitude among customers, resulting in short-term purchase intensions and increased customer loyalty.

In contrast, financial investments made by sellers created obligation among customers, and reduced customer loyalty. The paper also discusses theoretical and managerial implications of these findings.

1. Introduction

Marketers' quest for understanding the dynamics of long-term customer relationships has created an important body of academic research on loyalty and its role in business sustainability (Keating et al., 2003). Marketers invest heavily in customer relationship building activities to get loyal customers who provide sustainable competitive advantage (Rust et al., 2000). Investments in relationship building activities have increased substantially from $5.6 billion in the year 1991 to $35.0 billion in 2007 globally, (Yuping and Yang, 2009). In the United States alone, companies spend $2 billion annually on relationship marketing (RM) activities. The top 16 retailers in Europe spent $1 billion on relationship building activities. Qantas alone spent $203 million in 2012 on RM programs to build stronger customer base and retain loyal customers. These numbers suggest that firms invest huge money in RM activities to avoid price competition, raise switching cost and build strong customer loyalty to increase net profits.

Irrespective of the industry, RM investments are used as a medium to tie customers in long-term relationships. In the US alone, 2.6 billion customers participate in relationship marketing activities offered by firms (Wagner et al., 2009). In the US, Customers' participation in RM activities increased 26.7 percent across all sectors between 2011 and 2013 (Hirsh, 2014). In some sectors such as department stores, customer's participation in RM activities has increased by 70 percent during 2011–2013. In the US alone, in 2013, the financial services industry had 548.3 million customer participants involved in relationship building activities offered by firms – a nearly 28 percent jump from 2011, The airlines industry had 371.2 million customer participants, followed by specialty retailers (360.5 million) and hotels (223.6 million). Restaurants showed the biggest growth, with their 26.5 million memberships marking a 171 percent increase. Acceptance of various RM activities across multiple industries across the globe suggests that RM investments have become a key component of acquiring and maintaining loyal customers. These RM activities include all financial, social and structural investments that reward customers for their repeat purchase. The objectives of these RM activities include raising revenue and/or boosting the firm's customer base by influencing customers' purchase intentions and loyalty ers have provided different theoretical bases of success of long-term customer relationships and loyalty. Morgan and Hunt (1994) theorized that trust and commitment are central in business relationships. Sirdeshmukh et al. (2002) found that trust alone leads to long-term business relationships. Whereas Anderson and Weitz (1992) suggested that commitment alone is the critical relational construct, De Wulf et al. (2001) found that relationship quality better explains long-term relationships. Recent research in buyer–seller relationships has indicated that customer gratitude also plays an important role in developing buyer–seller relationships (Palmatier, 2009).

Although researchers substantiate the efficacy of RM activities (Leenheer and Bijmolt, 2008; Shugan, 2005), it is not clear what sets a successful RM investment apart from an unsuccessful one (Kumar and Reinartz, 2006; Dewani and Sinha, 2012). The financial performance of most of the RM activities rarely meets expectations (Daryanto et al.,

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2010; Henderson et al., 2011), which often results in their termination (Nunes and Drèze, 2006). For example, Starbucks recently decided to halt its rewards program due to its poor performance (Allison, 2010), and Safeway ended its loyalty scheme due to its lack of effectiveness (Meyer-Waarden, 2007). The marketing literature has provided a variegated view on the outcome of various RM investments made by firms. These RM investments may lead to positive outcomes (De Wulf et al., 2001), ambiguous and mixed outcomes (Colgate and Danaher, 2000) or even to negative outcomes (Hibbard et al., 2001). It remains unclear why some relationship marketing activities achieve their business objectives, while others fail. Perhaps researcher's limited ability to account for the simultaneous interplay of multiple psychological mechanisms which take place in the mind of customers while encountering various RM investments is the key reason behind this.

The social psychology literature provides some explanation for this. According to the literature on social psychology, both gratitude and obligation play a central role in the development and sustenance of interpersonal relationships (Emmons and McCullough, 2004;). Despite agreement that gratitude and obligation both form the 'core' of reciprocity and the basis of interpersonal relationships, prior research in marketing is silent on the role of customer obligation in the development of buyer–seller relationships. Our paper addresses this void.

It is well-known that when people receive some favor, they tend to reciprocate (Goulder, 1960). These reciprocal outcomes may be positive or negative, depending on how people perceive a relationship investment. When an investment is perceived as given with benevolent intentions, valuable to them, and it has incurred some cost to the benefactor, it generates feelings of gratitude. In contrast, when an investment is perceived to have a 'lack of benevolence' and/or have 'some ulterior motives', it is considered to be socially undesirable and generates feelings of obligation. The extant literature on psychology and sociology has categorized gratitude as a positive feeling and obligation as a negative state. These feelings of gratitude and obligation eventually result in different action tendencies. Gratitude has been proved to generate long-term action tendencies, whereas obligation results in immediate or short-term action tendencies (Fredrickson and Levenson, 1998). If a consumer feels obligation after receiving a free benefit offered as a RM investment by a retailer, she may act in two possible ways (Goei and Boster, 2005). She may immediately reciprocate in some way and terminate the relationship. Alternately, she may avoid taking further free benefit (Dewani and Sinha, 2012).

Taking clues from psychology and sociology research, we argue that customer reactions to different marketing investments (financial, social and structural), will depend on how do they perceive those investments. If they perceive these investments as positive (negative), it would results in feelings of gratitude (obligation). We argue that gratitude creates long-term orientation of actions. On inception of gratitude, people will react in terms of building and sustaining long-term relations with their benefactor. In contrast, obligation is an unpleasant and undesirable feeling. Therefore, to get rid of such feelings of indebtedness, customers will react immediately. This immediate action tendency will be caused by a narrowed thought-action repertoire. The immediate reciprocity on inception of obligation will be a result of social norms and it will terminate the prospect of a long-term relationship between a customer and a retailer (Fredrickson and Levenson, 1998).

The marketing literature is ambiguous about the impact of different types of RM investments on customer loyalty. With this research, we seek to improve our understanding of how various RM investments lead to immediate purchase intentions and customer loyalty. We specifically look at (1) how do different types of RM investments (financial/social/structural) impact customer gratitude and customer obligation? (2) How do customer gratitude and customer obligation further impact customer purchase intentions and customer loyalty? Firstly, we offer a framework to classify and separate RM investments which leads to negative loyalty from those RM investments which leads to positive loyalty. Secondly, our framework submits two possible mediating mechanisms in terms of either gratitude or obligation. We propose that financial RM investment leads to obligation which in turn leads to negative customer loyalty. In contrast, social and structural investments triggers gratitude, which in-tern leads to positive customer loyalty. Thirdly, we empirically test this framework in a retail setting, consisting grocery and cloth stores. Finally, we identify some boundary conditions of our proposed model and explain the theoretical and managerial implications arising from this research.

2. Theoretical support

2.1. Relationship marketing investments

Relationship marketing investments are the investments done by marketers with the intention that these investments would enhance competitive advantage by increasing repeated patronage by the customers (Bolton, 1989). In the extant marketing literature, various researchers have described these relationship investments in different forms such as customer bonds (Berry, 1995), exchange mechanisms (Cannon et al., 2000), benefits provided (Gwinner et al., 1998), and different functions (Hakansson and Snehota, 2000). The commonality among the different mechanisms described above is that they have similar inherent intentions e.g. to enhance the bonding between buyer and seller. In particular, Berry's framework of RM investments has been well accepted in the marketing literature. According to Berry (1994), RM investments have been categorized into financial, social and structural investments. Therefore, in this study, we have adopted Berry's (1994) framework of relationship marketing activities.

2.1.1. Financial RM investments

'*Financial Investments are any tangible or intangible rewards provided by donor which can be perceived in terms of monetary investments by receiver*' (Berry, 1994; Bolten et al., 2000). Financial investments are given to customers with the intention of increasing the patronage. These investments include, free samples, gifts, coupons, reward points and any other form of monetary promotions (e.g., Berry (1995) and Gwinner et al. (1998)). Financial offers increase customer patronage by enhancing customer's utilitarian value and thereby increasing the acquisition utility of the purchase (Ailawadi et al., 2001). Financial RM investments include incentives given prior and post purchase, e.g. coupons, reward points and price discounts etc. However, we consider only those incentives, which are given 'prior to purchase' which 'can be perceived in terms of money'. The investments given 'with the purchase' may not lead to initiation of feelings of 'obligation' or 'gratitude'. We argue that realization of both 'gratitude' and 'obligation' requires a necessary condition of '*incomplete exchange*'. Equity theory states that people like to reciprocate the same quantum of benefit received. A realization of benefit received along with desire to reciprocate would happen only in case of an 'incomplete exchange' (Greenberg and Neuendorf, 1980; Palmatier, 2009). Once the purchase has happened, the exchange process is complete. There is no reason for a customer to realize a sense of gratitude or obligation in a complete exchange process. Therefore, for this study, we consider financial investments to be those investments which happen prior to purchase and are perceived in terms of monetary incentives.

2.1.2. Social RM investments

"*Social RM investments are investments provided with the intent to create personal ties*". These investments range from interpersonal interactions, providing entertainment, special treatment and sharing personalized information (Berry, 1994; De Wulf et al.,