



Turning dissatisfied into satisfied customers: How referral reward programs affect the referrer's attitude and loyalty toward the recommended service provider



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ARTICLE INFO

Article history:

Received 18 March 2014

Received in revised form

22 July 2014

Accepted 23 July 2014

Available online 26 August 2014

Keywords:

Referral

Reward

Attitude

Loyalty

Dissonance

Opportunism

ABSTRACT

Referral reward programs are becoming a popular tool for acquiring new customers and bonding existing ones. Yet their benefits are contentious, since such campaigns are prone to the opportunistic behaviour of customers who merely want to reap the reward. This paper examines how participating in a referral campaign affects opportunistic recommenders. By conducting two experimental studies, this article shows that giving counterattitudinal referrals enhances the communicator's attitude and loyalty toward the recommended provider. However, the positive effect depends on the reward size. While referral reward programs with small incentives strengthen the recommender's attitude and loyalty, no impact was found for referrals with large rewards. The results show that a stronger focus on reward programs is worth considering, since service providers can benefit from opportunistic customers with regards to the bonding effect.

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1. Introduction

Buzz marketing has become an important marketing technique to stimulate positive word-of-mouth (WOM), and thus to acquire new customers (Rosen, 2001; Tuk et al., 2009). A recent Web search using the keyword “member-get-member-campaign” yielded 40,000 results, showing that referral programs are gaining growing popularity in various service industries (Ryu and Feick, 2007; Schmitt et al., 2011; Verlegh et al., 2013).

In referral programs, existing customers are rewarded for bringing in new customers (Biyalogorsky et al., 2001; Ryu and Feick, 2007; Schmitt et al., 2011). In this way, incentives basically function as an extrinsic motivator to generate WOM (Tuk et al., 2009; Wirtz and Chew, 2002). Although previous studies confirmed that providing rewards increases referral likelihood (Ryu and Feick, 2007; Wirtz and Chew, 2002) and the favourability of the WOM generated (Wirtz and Chew, 2002), referral reward programs are not uncontroversial (Schmitt et al., 2011; Tuk et al., 2009). Some academics have questioned the value of incentive referral campaigns (e.g., Trusov et al., 2009; Van den Bulte, 2010; see also Schmitt et al., 2011), particularly because rewarded

referrals can be driven by motives of self-interest (Wirtz et al., 2013). In other words, such programs are prone to the opportunistic behaviour of consumers (Helm, 2000; Schmitt et al., 2011; Wirtz and Chew, 2002) who merely want to take advantage of the provider in order to reap the provided reward (Blazevic et al., 2013; Wirtz and Chew, 2002). Making stimulated referrals by unsatisfied customers is not a rare phenomenon (Helm, 2000). Experimental studies confirmed that dissatisfied customers engage in incentivized referrals only because of the reward (Garnefeld et al., 2009). Although scholars agree that WOM opportunism exists, very little research has been done on self-interested WOM behaviour. Schmitt et al. (2011) found that the contribution margin, the retention rate, as well as the customer lifetime value for customers acquired through a referral campaign are higher than for non-referred customers, and that the value differential is larger than the reward. These results indicate that any misuse by opportunistic consumers is much less important than the benefits stemming from newly acquired customers (Schmitt et al., 2011). Furthermore, a few studies examined how a reward affects receivers' responses to the recommendation. Verlegh et al. (2013) showed that incentives adversely affect responses when they are perceived as driven by ulterior motives. Tuk et al. (2009) generally speculate that the reward introduces a financial motive into the interpersonal interaction between the referring and the receiving customer, which could harm the sincerity of the recommendation. However, researchers have

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neglected analysing the impact of giving counterattitudinal referrals on the referring customer. Recent research into the attitude-congruent WOM context has shown that participating in a referral program increases the communicator's attitudinal and behavioural loyalty to the provider (Garnefeld et al., 2013). By contrast, the effect of articulating positive WOM that does not reflect the referrer's attitude toward the provider has received no research attention thus far. This study therefore aims to bridge this gap in the literature by examining the effects of articulating opportunistic referrals on the recommender's attitude and loyalty. In this regard, this paper responds specifically to Garnefeld et al.'s (2013) call for research into further investigations of the bonding effect of attitude-discrepant WOM behaviours on the referring customer.

The lack of research into the sender-related impact of recommendations is an obvious shortcoming in the WOM literature (Ryu and Feick, 2007; Tax et al., 1993). Only a few studies have explored the effects of referrals on the recommender (Eggert et al., 2007; Garnefeld et al., 2011, 2013). By showing that positive referrals are not only effective for gaining but also for bonding customers, these studies added a new perspective on the consequences of WOM communication (Garnefeld et al., 2011). Thus, referral reward programs can also be regarded as an instrument for retaining existing customers (Jin and Huang, 2013; Reinartz et al., 2004; Ryu and Feick, 2007). We broaden this view by investigating the effects of opportunistic referrals on the recommender's attitude and loyalty. We further examine their boundary conditions; more specifically, the size of the reward is investigated as a moderator.

Owing to the growing use of referral reward programs, a better understanding of their impact on customer retention is of great interest for service marketing management, both for scholars and practitioners. By rewarding WOM, service providers invest both in acquiring and in retaining satisfied customers (Ryu and Feick, 2007). However, dissatisfied customers who are driven by the reward are also attracted. Referral campaigns are very cost effective (Schmitt et al., 2011; Xiao et al., 2011), and the spending on those programs has increased considerably (Blazevic et al., 2013). Therefore, the uncertainty that surrounds the payback of customer referral programs due to opportunistic participants is frustrating for managers aiming to prevent wasteful expenses and to boost their return on marketing investment (Schmitt et al., 2011). For a deeper insight into the effectiveness of customer referral programs, companies need to understand how the participation in a campaign affects opportunistic customers, and whether providers might even benefit from a bonding effect. By exploring the effects of campaigns with both small and large rewards, we provide further guidance on how to design referral reward programs.

2. Theoretical background and research hypotheses

2.1. Communicator's attitude

Individuals who advocate a specific position are driven to be consistent with their articulated position (Cialdini, 1971, 2009; Cialdini and Goldstein, 2004; Garnefeld et al., 2013). That binding to a position results from the public commitment implied by the subjects' behaviour (Kiesler, 1971; Nyer and Dellande, 2010). Public commitment occurs when an individual's position is known or made public to other people (Gopinath and Nyer, 2009). Research provides empirical evidence that persons who make public commitments align their attitudes and future behaviours with their commitments (e.g., Cioffi and Garner, 1996; Garnefeld et al., 2011; Greenwald et al., 1987; Katzev and Pardini, 1987; Nyer and Dellande, 2010; Pallak and Cummings, 1976; Wang and Katzev, 1990). By generating WOM, the customer takes a public stand on

the evaluation of a service provider (Davidow, 2003; Garnefeld et al., 2013; Nyer and Gopinath, 2005). Participating in a referral reward program thus constitutes a public commitment that should have consistency effects (Blazevic et al., 2013; Garnefeld et al., 2013). Pursuant to Cialdini (2009), dissonance theory and self-perception theory are eligible theoretical frameworks for explaining these consistency effects. As shown by Garnefeld et al. (2011), self-perception theory is suitable for attitude-congruent WOM behaviour, whereas dissonance theory provides an accurate approach for the effects of attitude-incongruent commitments. We draw on Festinger's (1957) dissonance theory to derive our hypothesis because we focus on the impact of attitude-discrepant referrals on the recommender's attitude and behaviour.

Pursuant to dissonance theory, individuals strive to implement their cognitive system in a state of psychological consistency (Frey and Gaska, 2001). Cognitions are elements of knowledge that individuals have about their attitudes, beliefs, values, and behaviour (Cooper and Carlsmith, 2001; Olson and Stone, 2005). Festinger (1957) asserts that an inconsistency between two relevant cognitions generates a psychological discomfort, which he conceptualized as an aversive state similar to hunger or frustration. That unpleasant tension that Festinger termed "dissonance" would motivate people to reduce this inconsistency by changing one cognitive element (Cooper and Carlsmith, 2001; Olson and Stone, 2005).

Several early studies confirmed that engaging in counterattitudinal behaviour evokes cognitive dissonance and thus a state of aversive arousal (e.g., Elkin and Leippe, 1986; Fazio et al., 1977; Kiesler and Pallak, 1976; Losch and Cacioppo, 1990; Zanna and Cooper, 1974; Zanna et al., 1976). By giving attitude-incongruent referrals, customers should experience a psychological discomfort because the behavioural cognition – "I recommended my service provider" – and the attitudinal cognition – "I don't like my service provider" – are dissonant. Due to this public advocating, the recommender has committed him- or herself to his or her behaviour. Brehm and Cohen (1962) postulates that a commitment to a dissonant cognition makes it resistant to change, and the recommender is thus tied to his or her referral. Owing to this commitment to the counterattitudinal behaviour, there should be no possibility for the participant of the referral program to reverse or renege on his or her behaviour, or to distort its meaning. Attitude change should therefore remain the only viable option for eliminating dissonance (Eagly and Chaiken, 1993). Accordingly, it is expected that referrers would change their attitude toward the recommended service provider in order to reduce the inconsistency between attitude and behaviour. From this discussion, the following hypothesis is advanced:

H1. Articulating a counterattitudinal referral within a referral reward program has a positive effect on the recommender's attitude toward the service provider.

2.2. Communicator's loyalty

A public disclosure of an attitudinal position strongly influences subsequent behaviour (Cialdini, 2009); in other words, individuals are more likely to choose actions congruent with one's public commitments (Cialdini and Goldstein, 2004). Eagly and Chaiken (1995) states that commitment drives people into a state of defence motivation. Defence motivation leads to selective cognitive processing of information that is inconsistent with one's public commitments (Gopinath and Nyer, 2009; Pomerantz et al., 1995). According to dissonance theory, people desire to avoid increases in dissonance by evading dissonant information (Frey and Gaska, 2001; Olson and Stone, 2005). Individuals are therefore more resistant to the communication efforts of other service

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