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The role of customer gratitude in making relationship marketing investments successful

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ABSTRACT

This paper recognises that customer loyalty is important for many competitive organisations, and that retail firms make investments to build and maintain loyal relationships with their existing and potential customers (e.g. loyalty programs). However, there has been little focus on the mechanisms by which these relationship investments operate to achieve customer loyalty. This paper examines one mechanism, namely customer gratitude, which works to make a firm's relationship marketing investment a success or a failure. Using data from 1600 undergraduate students, this study empirically confirms the mediating role of *customer gratitude* between the customers' perceptions a firm's *relationship marketing investments* and customers' perceptions of the *value of the relationship* with the firm. Further, a significant moderating effect of *perceived benevolence* on the relationship between customers' perceptions a firm's *relationship marketing investments* and customer gratitude was identified. For theorists, this customer gratitude model offers a better psychological explanation of how relationship marketing investments operate to improve the value that customers place on their relationships with retailers. Our research suggests that managers should invest resources to stimulate customer gratitude in order to build strong customer–seller relationships.

1. Introduction

Social exchange theory proposes that social behaviour is the result of an exchange process (Lawler and Thye, 1999). Rational customers seek to increase their utility within an exchange process by maximizing their benefits and minimising their costs. In a retail context, customer costs include financial, temporal and physical (effort expended) costs (Markin, 1979); benefits, on the other hand, are outcomes received from the retail relationship, such as goods and services (Konovsky and Pugh, 1994). When costs outweigh the benefits, customers will abandon the retailer; conversely if the benefits outweigh the costs, rational customers should remain loyal (Settoon et al., 1996).

In an attempt to ensure that customers' perceived benefits outweigh their perceived costs, many firms invest heavily in marketing relationship activities, such as loyalty programs (Arbore and Estes, 2013; Reinartz and Kumar, 2002). For example, the top 16 retailers in Europe collectively spent the equivalent of A$1 billion on their loyalty programs in 2000 (Reinartz and Kumar, 2002), while Qantas spent A $203 million on their Frequent Flyer loyalty program (QANTAS Report, 2012). Firms invest in loyalty programs with the objective of avoiding price competition and increasing brand loyalty by creating switching costs, ultimately to increase profits (Leenheer and Bijmolt, 2008). However, it remains unclear why some loyalty schemes achieve these business objectives, while others fail (Gustafsson et al., 2004). Considering the significant investments made by retailers into relationship marketing programs, it is important to develop a better understanding of the mechanisms that determine the success of such programs. Accordingly, this research responds to calls to examine constructs that impact customer loyalty (Pan et al., 2012).

Hogan (2001) defines the customer-perceived value of relationship with the firm as the customer's perception of cumulative worth of all the tangible and non-tangible benefits that they derive from the relationship with the retailer. Loyalty programs should increase this worth and, consequently, strengthen the relationship between the two stakeholders (Ashton-James and Ashkanasy, 2008). Yet, for some retailers, loyalty programs do not produce the promised results of lower customer churn, higher profitability and valuable consumer insights (Leenheer and Bijmolt, 2008; Nunes and Drèze, 2006). Several authors provide evidence that loyalty programs may negatively impact customers' perceptions of the value of their relationship with a firm (Gustafsson et al., 2004; Hennig-Thurau and Hansen, 2000; Stauss and Seidel, 2002). Dowling and Uncles (1997) suggest that although loyalty programs have proliferated, they do not appear to have improved customer/firm relationships (Bridson et al., 2008). As such, the question that

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remains unanswered is; why do many loyalty schemes fail to achieve customer loyalty?

Social exchange theory offers some insights into the mechanism by which loyalty schemes work. Social exchange theory is based on the assumptions of the rational economic view of relationships (Settoon et al., 1996). Following this logic, customers' economic evaluations of their relationships with retailers is based on the costs that they incur versus the core products and services that they receive, plus any augmentation in the form of additional benefits. Additional benefits may take the form of accruing redeemable loyalty points, exclusive discounts, service upgrades and customised special offers (Arbore and Estes, 2013). This rational economic view of social exchange does not consider customers' emotional responses to the actions of the retailer. This oversight is interesting as evidence suggests that consumers are to a great extent emotion driven (Fredrickson, 2004; Haidt, 2000; Waugh and Fredrickson, 2006) and their responses to external stimuli, such as loyalty programs, are spontaneous, emotional and not well reasoned (Arrow, 1986; McLeod and Chaffee, 1973). In contrast to social exchange theory, positive psychology theories explain how interventions (such as retailer stimuli) may impact emotions. As such positive psychology may complement social exchange theory to give additional insights into the impact of retailer augmentations to their core offering.

Common emotional responses to receiving a benefit are delight, indebtedness and gratitude. *Delight* is a customers' emotional response to a surprising positive departure from expectations (Schneider and Bowen, 1999). For instance, delight may result when a customer is provided with an unexpected fee waiver, service upgrade or discount. Customer delight, by definition, is self-directed and does not motivate the customer to pay back (Rust and Oliver, 2000). In contrast, *indebtedness* is an outcome of involuntary participation in an exchange process; when a person perceives they are under an obligation to make a repayment for the benefit received. Arguable, feelings of indebtedness can lead to negative emotions, such as guilt, and may motivate customers to avoid the retailer that provided the benefit (Mathews and Green, 2010). Customer *gratitude* is a voluntary, other-directed emotional response that arises from the recognition that a benefit has been received from a seller (Bonnie and de Waal, 2004; Buck, 2004; Komter, 2004). If the benefit received is perceived as genuine and demonstrates the retailer is acting in the best interests of the customer, the benefit is perceived as a benevolent act. Benevolence involves retailers showing genuine consideration and sensitivity, while refraining from exploiting customers (Atuahene-Gima and Li, 2002). Hence, gratitude and the moderating effect of benevolence, are important components of business-to-customer relationships (Morales, 2005) and offer potential insights into the mechanism by which customers' perceptions of relationship marketing investments may enhance their perceptions of the quality of their relationship with a retailer. Interestingly, despite many loyalty programs emphasising the relationship between customers and retailers, and the effect of these relationships on customer behaviours, marketing literature remains silent on the explanatory role of customer emotions in the relational exchange process. This study addresses this gap by empirically examining the roles that customer gratitude and perceived benevolence play in the process of customers' evaluating their relationship with a firm based on their perceptions of firms' relationship marketing investments.

2. Literature review

Many retailers are investing in relationship marketing activities to stimulate their customers' perceptions of value in the relationship (Kim et al., 2006). When customers perceive that retailers have invested in their relationship they are likely to experience a range of positive emotions, for example, delight and indebtedness and gratitude. Of these, gratitude is voluntary and other-directed and will stimulate the norm of reciprocity, particularly if the customer perceives the benefit received is a benevolent act. This drives a process for customers to give back to the retailer that they feel has invested the relationships with perceived extra benefits (De Wulf et al., 2003; Weiner et al., 1979). This improves customers' perceptions of relationship value, which, in turn, leads to long-term marketing success.

We adopt the Affect Theory of Social Exchange (Lawler, 2001) to explain how customers' perceptions of a firm's relationship marketing investments stimulate the gratitude. The theory maintains that the receipt of implicit or explicit benefits by actors participating in joint social exchange determines the nature and intensity of the emotional response. For example, when exchanges are successful, and relationship investments benefit both retailer and customer, the exchange partners equally experience positive emotional responses, such as gratitude. When exchanges result in failure, or are non-beneficial to either or both retailer and customer, exchange partners experience negative emotions such as disappointment and regret. The Affect Theory of Social Exchange suggests that customers' experiencing appropriate relationship investments by the retailer perceive their relationship with the retailer to be a successful social exchange, and this results in positive emotions such as gratitude.

Examining *customer-perceived relationship value* through the lens of economic benefit is limiting, as to do so assumes that customer perceptions are formed on purely economic grounds (De Wulf et al., 2003). When a customer perceives that retailers' investments have only financial benefits, rather than also encompassing benevolence or social benefit, they are unlikely to experience an affective responses such as gratitude or affective commitment (Nelson, 2009). In such situations, customers might experience continuance or calculative commitment, which is sustained only as long as the cost–benefit analysis falls in favour of the customer. Prior research shows that a long-term relationship with a seller is unlikely to be an outcome of calculative commitment (Nelson, 2009; Rust and Oliver, 2000). This makes a narrow focus on the economic nature of relationship marketing investments problematic. Such a focus overlooks the scope of affects, and does not offer a psychological explanation of customer–firm relationships (Jang and Mattila, 2005; Uncles et al., 2003). Managerially, emphasising the financial benefits of the relationship marketing investment to customers may explain why some loyalty programs work and others fail. This research responds to call to investigate other possible psychological mechanisms that better explain how customers' perceptions of relationship value influence their behaviour (e.g. Palmatier et al., 2007; Russell-Bennett et al., 2000). Among various factors proposed, customer gratitude is worthy of attention because it provides insights into customer's perceptions of, and feelings for, relationship marketing investments in an exchange process. Moreover gratitude is a mechanism that has the potential to better explain how customer-perceived relationship marketing investments affect their perceptions of relationship value.

Previous work has focussed on identifying psychological mechanisms that work with other mediating mechanisms; for example trust and commitment, to explain customer attitudes or to directly predict purchase behaviours (e.g. share of wallet), rather than defining purchase patterns as a function of customer-perceived relationship value (Morales, 2005). Missing from these academic advancements is a focus on the independent identity of the emotional response of gratitude that alone has a potential to predict customer-perceived relationship value. Thus the primary research question for the study is; does customer gratitude, and the moderating effect of perceived benevolence, play a role in making relationship marketing investments a success?