



Effects of a reward program on inducing desirable customer behaviors: The role of purchase purpose, reward type and reward redemption timing

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ABSTRACT

For capacity-constrained service firms, efforts to balance supply and demand have been centered on the management of demand, service processes and service employees. Despite the significant role customers play in the service process, few attempts have been made to manage customer roles toward that end. Meanwhile, concerns have been expressed about the potential negative impact on customer satisfaction by the firm's effort to steer customer behaviors for the firm's benefit. Thus, it is crucial to minimize these undesirable customer effects in such an attempt. In this study, we propose a customer reward program as a possible customer approach and empirically test its effectiveness.

Further, we test the impact of customer understanding of the firm's entitlement to profit upon the degree of the customer's voluntary behavior for the firm's benefit. The effect of justice evaluations of the reward program on customer adoption of the program is also examined. Finally, effects of customer characteristic (purchase purpose) and reward attributes (type and redemption timing) on the reward program's effectiveness are evaluated. Findings of this study contribute to the extension of the service capacity management literature, and offer service managers valuable insights about using a customer program as a means to better match supply and demand.

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1. Introduction

For service firms with relatively fixed capacity but highly time-varying demand, profitability depends largely on their ability to match supply and demand (Crandall and Markland, 1996). To take an airline as an example, its capacity is fixed by the number of planes it operates and the number of seats in the planes, but its demand varies considerably by time of day, day of week or week of year. Consequently, an airline's profitability depends upon its ability to select the most profitable mix of demand during high-demand periods and its ability to stimulate demand during low-demand periods. Hotels, restaurants or golf courses, to name a few, face similar challenges. Due to limited control over capacity management, these firms' efforts have been concentrated on demand management, such as moving or stimulating demand.

Differences exist among these firms, however, in the degree of capacity flexibility. To take a restaurant as an example, its capacity is typically defined by the number of customers that can be accommodated during a given meal period. Yet, its capacity is influenced by the duration of customer seat occupation as well. For a

100-seat restaurant, for instance, when the average dining duration is 1 h, the restaurant's hourly capacity is 100 customers. When the average decreases to 30 min, however, the capacity increases to 200 customers. For this reason, more restaurants are turning their attention to managing dining duration, particularly during high demand periods (Kimes, 1999). Similar interests have emerged in other service industries such as golf-courses and theme parks, where longer consumption duration decreases service capacity but does not necessarily increase revenue.

So far, efforts to reduce consumption duration (service time) have been concentrated in areas under management's direct control such as service processes and employees (Kimes and Robson, 2004; Sill, 1991). Efforts to manage customers have been limited to imposing dining time limits, which have triggered negative customer reactions. Therefore, it is vital that such a customer approach is designed and implemented in a way acceptable to customers. The current study intends to identify and test an approach which will benefit both service firms and customers by inducing customer's voluntary adoption of firm-friendly consumption behaviors.

Customers are more likely to perform their expected role in the service process when they are rewarded for such performance (Lovell and Wright, 2002). Company feedback to customers in a reward format makes customers feel cared by the company and thus motivates them to behave in a manner beneficial to

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the company (Dowling and Uncles, 1997). Therefore, we propose a customer reward as a means to induce customers' voluntarily reduction of consumption time and empirically examine its effectiveness.

The remainder of this paper is organized as follows. We first present the conceptual background of the current study, which is followed by the proposal of hypotheses. Research methodology and results will then be explained. The paper will be wrapped with discussions of the theoretical and practical implications of the findings.

2. Conceptual background and hypotheses development

2.1. Service capacity management

Since the late 1970s, efforts to help capacity-constrained service firms maximize revenue through a better match between supply and demand have been actively pursued (e.g., Cross, 1997). The term "revenue management (RM)" has been coined to refer to this stream of efforts and is defined as selling the right inventory to the right customer at the right price at the right time so as to maximize revenue (Smith et al., 1992). RM approaches are applicable to industries with distinct business characteristics such as relatively fixed capacity, time-perishable inventory, time-variable demand, and high fixed costs (Kimes, 1989). Further, in order to reap full benefits from applying RM approaches, firms should be able to segment customers, sell through advance reservations, prevent arbitrage of intermediaries, and accurately forecast demand (Vinod, 2004).

RM strategies are classified largely into busy- and slow-period strategies. The former strategies concentrate on selecting the most profitable mix of demand, while the latter strategies center on stimulating demand for capacity that would otherwise go unsold. Specific RM approaches include differential pricing, inventory optimization, and overbooking (Vinod, 2004). The primary focus of these RM approaches has lied on managing demand.

Capacity management efforts have been limited only to improving service processes, better training service employees (Sill, 1991), and adopting advanced communication technologies and process analysis tools (Kimes et al., 1998, 1999). These approaches pursue the goal of minimizing service time by eliminating unnecessary delays. Recently, the impact of physical service environments on customer consumption behaviors has received attention. An empirical study using a Mexican restaurant setting found that customers seated in a banquet-type seating took longer to dine than those seated in other types of seating (Kimes and Robson, 2004).

Meanwhile, concerns over these service time reduction approaches have been expressed. The negative effect of reduced dining duration on customer satisfaction has been empirically demonstrated (Noone et al., 2007), alerting management to consider the long-run customer impact of these approaches. Therefore it is crucial that any customer approach for the purpose of reducing service time is designed to ascertain customer acceptance. This study proposes and tests a customer reward as a potential candidate for such an approach.

2.2. Customer impact on service capacity

For service firms, customer roles in the service processes influence organizational productivity and performance (Hsieh et al., 2004). For this reason, service customers are described as productive resources and contributors to quality and value (Bitner et al., 1997). Service customers play a particularly important role in determining the service delivery time and therefore service capacity of a service firm. Therefore, it is of utmost interest service managers to induce customer behaviors leading to reduced service time, especially when demand exceeds capacity. As long as such

customer behaviors are voluntarily adopted, potential negative customer effects might be negligible (Namasivayam and Hinkin, 2003).

Service customers are at times considered as partial employees (Bowers et al., 1990; Keh and Teo, 2001). This makes the theoretical framework applicable to employees also relevant to service customers (Vaughan and Renn, 1999). Just as behaviors expected from employees can be categorized into in-role behaviors (or task performance) and extra-role behaviors (or organizational citizen behaviors) (MacKenzie et al., 1991; Motowidlo and Van Scotter, 1994; Williams and Anderson, 1991), behaviors expected from customers could also be classified similarly (Groth, 2005). While in-role (co-production) customer behaviors are defined as behaviors expected from customers for the successful production and delivery of services (Groth, 2005), extra-role (customer citizenship) behaviors are defined as customers' voluntary and discretionary behaviors which are appreciated when exhibited (Bettencourt and Brown, 1997) and include acts of cooperation, helpfulness, and kindness (Lengnick-Hall et al., 2000). Customers with citizenship engage in positive word-of-mouth, buy additional services, make recommendations to others, and show higher price tolerance (Bettencourt and Brown, 1997; Anderson et al., 2004).

The particular customer citizenship behavior of interest for the current study is customer cooperation during the service delivery process, specifically a customer's voluntary reduction of service time (dining duration). Customer cooperation has been demonstrated as a key contributor to the customer's own and other customers' quality perceptions and satisfaction in the service process (Kelley et al., 1990, 1992; Martin and Pranter, 1989). Cooperative customer behaviors are exhibited as trying to understand the service process, to be polite and respectful, to observe rules and policies, and to accept directions from the service provider (Bateson, 1985).

Cooperative customer behaviors are driven by the customer's internal motivation (Mills and Morris, 1986). According to the dual entitlement principles (Kahneman et al., 1986a,b), customer perceptions of and reactions to the firm's initiatives differ considerably depending on customer understanding of the reasons behind the initiatives (Bazerman, 1985). For example, unjustified price increase is perceived as unfair while price increase due to increase in cost is perceived as fair (Urbany et al., 1989). Accordingly, customer understanding of the business impact of reduced service duration is likely to affect the customer's cooperative behaviors. Kahneman et al. (1986a,b) argue that firms are entitled to profit while customers are entitled to value. The more customers understand that firms are entitled to profit and that service duration has significant impact on the firm's profitability, the more they are likely to adopt cooperative behaviors. Therefore, we propose the following hypothesis:

H1. The more customers understand the firm's entitlement to profit and the impact of service duration on the firm's profitability, the more customers are likely to show cooperative behaviors.

2.3. Justice evaluation of the reward program

Customers' justice evaluation of a reward program is likely to affect the effectiveness of the program (Chatman, 1991; Greenberg, 1987). Customer justice perception of a reward program is defined as the customer's satisfaction with what they receive relative to what they expect to receive in return for the efforts and sacrifices they make in the exchange relationship (Homans, 1958). When a reward program is perceived as unfair, customers lose the motivation to give what the reward program is expecting (Meglino and Ravlin, 1998) and further lose interest in establishing an exchange relationship with the reward provider (Ganesan, 1994). Conversely,

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