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Take it or leave it: Using regulatory fit theory to understand reward redemption in channel reward programs

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ABSTRACT

Channel Reward Programs (CRPs) facilitate relationship management within reseller networks in distribution channels, yet a persistent problem is that rewards are not seen as valuable, which can reduce program investment. By applying Regulatory Fit theory, to understand how to sustain goal orientation (promotion or prevention) and stimulate task engagement through a match with the manner of goal pursuit, this study demonstrates that the presentation style suppliers adopt influences resellers' perceptions of reward value and their rate of point redemption with respect to CRPs. Two field studies demonstrate the mechanisms driving this effect. First, fit effects result from the interaction between reward type and presentation format (i.e., verbal vs. numerical) and affect perceived reward values and investment decisions. Second, cognitive engagement and "feeling right" about reward redemption mediate the effects of fit on investment opportunity evaluations. In turn, the findings demonstrate that CRP efficacy can be enhanced by stimulating regulatory orientations that match the presentation formats of the reward and that the dual affective–cognitive processes affect probabilistic judgments of rewards. This additional mechanism can further stimulate resellers' engagement with and investment in CRPs within complex decision-making contexts.

1. Introduction

The effective coordination of exchange relationships within large networks of independent resellers (particularly sole traders or micro enterprises) in distribution channels remains a challenge for manufacturers (Biggemann & Buttle, 2012; Johnson, Clark, & Barczak, 2012; Narayandas, 2005). A common strategy used to build loyalty in such settings formalizes the relationships with independent business owners through Channel Reward Programs (CRPs) that feature marketing support initiatives, such as lead generation or reseller sales training and certification with mutual benefits for the parties involved (Gartner Research, 2006).

However, CRPs demand considerable investments to generate awareness and foster participation. The related effort may, for the supplier, exceed simply creating an administrative infrastructure; they also demand investments of time, effort, and transaction costs among participants, who seek to earn points and then must decide how to redeem those points as rewards. The points are a form of currency in this exchange, and a failure to spend them would imply ineffectiveness, dissatisfaction, and a liability of (symbolic) capital accumulation. Yet some CRP members never invest their points, especially if the rewards fail to match their business needs or if the exact payoff of a specific point investment remains uncertain (Chief Marketing Officer Council, 2010; Schwartz, Scannell, & McEachern, 2006). Many otherwise efficient reseller programs have failed due to poor communication with and enthusiasm from resellers, resulting in low levels of engagement, poor perceived value, and reduced claim activity. How then can manufacturers stimulate engagement and subsequent point redemption activity within CRPs?

To address this important managerial question, we employ Regulatory Fit (RF) theory as a theoretical basis for explaining investment of points for reward redemption decisions. Regulatory Fit is a motivational theory that explains how goal orientations, such as business opportunity promotion or risk prevention, might be sustained, as well as how task engagement can be stimulated, through a match of the goal orientation with the goal pursuit method (e.g., Higgins, 2006). In particular, the question of how independent decision makers identify and attain their goals is fundamental for understanding members' investment activity in CRPs. We consider RF particularly interesting in this context, because it explains decision making by the interrelationships among three core concepts: (a) motivational orientation (promotion versus prevention regulatory foci), (b) reward communication format, and (c) judgment

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impacts on perceived value of rewards and investment (Kruglanski, 2006). The relevance of RF stems first from the notion that the utility or value a business owner experiences from his or her decision to redeem points is a function of the fit relationship between this owner's motivational outlook during the decision process (i.e., which goals he or she values) and his or her preferred decision-making approach (Antes & Mumford, 2012; Brockner & Higgins, 2001). Second, regulatory orientations vary with the situation, such as in response to different leadership styles or organizational communication formats. In this sense, they offer excellent opportunities for program interventions and the potential to enhance fit by stimulating orientations consistent with the task or activity being promoted. That is, reward systems should be more effective if they match a business owner's regulatory orientation (Brockner & Higgins, 2001).

In the process of confirming these general propositions for CRP reward redemption, we make two substantive research contributions. First, we address an ongoing debate in the literature about how to communicate complex, longer-term outcomes, such as potential pay-offs from reward programs. von Winterfeldt and Edwards (1986) argue that decision makers prefer numerical information over verbal information, because it leaves less room for ambiguity, such as when learning about the potential for loss (e.g., "0.01 to 0.1% chance" versus "the chance is very low"; Knapp, Raynor, & Berry, 2004). In contrast, Windschilt and Wells (1996) posit that a verbal presentation of outcomes (e.g., "it is very likely that the potential pay-off is very high") may be more convincing because of its better fit with the context, which involves communicating abstract or undefined outcomes and the potential for gain. To extend these fit notions, we investigate the relationship between situational regulatory focus and the presentation format of a pay-off, regardless of disposition, as well as how this interaction affects the value of a reward and CRP investment decisions.

Second, after having established the interaction between situational regulatory focus and presentation format, we zoom in on its underlying mechanisms to further our understanding of this important phenomenon. Prior RF research already has recognized that the degree to which decision makers "feel right" about their goal pursuit accounts for some of the impact of fit on perceived value (Aaker & Lee, 2006; Avnet & Higgins, 2006). For example, prevention-focused entrepreneurs experience fit when they can estimate feasibility and assess potential loss in detail, because they are already oriented toward avoiding losses; 'feeling right' about their business investment decisions leads to stronger engagement with the venture (Hmieleski & Baron, 2008). Yet, much RF research relies on relatively simple, laboratory-based, problems; we consider more complex business problems and predict that the feeling right mechanism is necessary but not sufficient to explain decision makers' reactions to rewards and investments. For example, judging the Return on Investment (ROI) of CRP rewards entails a probabilistic judgment of the likelihood of an event (Rottenstreich & Kivetz, 2006), namely, of the extent to which CRP rewards will serve the reseller's business objectives in the future. This prediction requires accounting for the cognitive engagement necessary to understand investment decisions. Therefore, we extend previous RF research by examining the explanatory power of cognitive engagement, in addition to feeling right, as a parallel, underlying mechanism for transferring RF to explicate perceived reward value and ultimately reward investment decisions. We employ two large-scale field experiments to substantiate these claims.

2. Conceptual underpinnings

Regulatory fit (RF) as a motivational theory is founded on regulatory focus theory, which identifies two motivational orientations toward new task goals: a prevention goal orientation, characterized by the desire to satisfy security needs, and a promotion goal orientation, characterized by the desire to satisfy nurturance needs (Higgins, 1997; Higgins et al., 2001). When decision makers pursue their goals in ways that match their promotion or prevention goal orientations, RF results (Higgins, 2006). For example, resellers primed to be promotion-focused are more likely to adopt strategies that emphasize business growth and advancement (e.g., increasing revenues). In contrast, resellers primed to be prevention-focused tend to adopt strategies that emphasize duty and obligation (e.g., maintaining an existing competitive position). The outcome of RF is experienced as a sense of 'feeling right', which stimulates further engagement with the activity (Cesario, Higgins, & Scholer, 2008). In addition, RF enhances or magnifies a person's evaluation, affective reactions, intentions, and behavior (e.g., eagerness to create or innovate products; McMullen & Zahra, 2006).

Among independent resellers, opportunity recognition, organizational goals, planning and decision making depend heavily on the motivational characteristics (e.g., regulatory orientation) of the firm's owner-manager (Hambrick & Finkelstein, 1987; McMullen & Zahra, 2006; Tumasjan & Braun, 2012; Wallace, Little, Hill, & Ridge, 2010), which also may grant the business its competitive edge (Trevelyan, 2008). The decisions made by these owners thus tend to reflect their RF, as exemplified in loss minimization activities and resource allocations (Antes & Mumford, 2012; Hmieleski & Baron, 2008; McMullen & Zahra, 2006; Wallace et al., 2010). A promotion-focused owner-manager may drive the firm toward innovative strategies; a prevention-focused one likely seeks to stabilize and improve organizational processes, which ultimately affect firm performance (Wallace et al., 2010). However, a prevention focus can come at the cost of missed development opportunities (Hmieleski & Baron, 2008; Tumasjan & Braun, 2012).

Extending RF theory to a CRP context seems valuable; the well-defined nature of this theory lends itself to real-world implementations (Cesario et al., 2008). We exploit two main features of RF (i) the ability to situationally induce the regulatory orientation of independent resellers and (ii) to promote point investment through a match of orientation with reward type as a means of stimulating engagement with the CRP, enhancing perceived value of rewards. First, regulatory focus can be triggered situationally through priming (Higgins, 1997), and promotion and prevention goal orientations have been successfully primed regardless of the person's dispositional predilection (Lee & Aaker, 2004). It has been shown to be responsive to changes in leadership, environmental impacts and organizational communications (Brockner & Higgins, 2001; Forster, Higgins, & Bianco, 2003). When we study individual decision makers considering whether to invest in CRPs, we do not need to identify their underlying individual dispositional orientations; a task beyond the scope of any reward program. Instead, suppliers can use tailored messages with situational cues to prime resellers to adopt a promotion or prevention focus that matches the reward type and thus perhaps increase engagement with and investment in the CRP. Importantly, promoter (as opposed to self) generated situational cues tend to have more pronounced effects on the focus that the person adopts (Grewal et al., 2010.

Second, RF influences investment decisions, including the investment of points in CRPs for reward redemption (Higgins, 2006). Promotion-focused people highlight the potential gains from such an investment, but prevention-focused managers focus on the potential for losses (Brockner, Higgins, & Low, 2004; Florack & Hartmann, 2007). A sense of feeling right then results from a match between regulatory orientation and rewards and can affect subsequent reward investment decisions. Decision makers with a prevention focus may perceive rewards that offer risk reduction as more valuable (in contrast to promotion-focused decision makers who value rewards that stimulate business opportunities). Furthermore, because RF works at the strategic (process) level rather than the individual need-fulfillment level, practitioners can promote CRPs as appropriate strategies, matched to the regulatory focus, to create fit. Such an application of RF can be used as a mechanism for fostering favorable retailer perceptions of reward value, helping resellers buy in to the CRP, and enhancing reward program efficacy.

In seeking to enhance investment in CRPs we contribute to two debates within RF theory. With regard to the debate about the presentation format of the messages, we predict that matching a situationally