The Effect of Power Distance Belief and Status Demotion in Hierarchical Loyalty Programs

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This research investigates the role of cultural orientation in affecting loyalty intention towards loyalty programs after status demotion. Based on social identity theory, we found that consumers with high (vs. low) power distance belief experience more social identity threat after status demotion, which in turn causes extremely low loyalty intention.

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EXTENDED ABSTRACT

In the era of relationship marketing, loyalty program has becoming one of the most important marketing tools for companies and an important part of consumer behavior (Henderson, Beck, and Palmatier 2011; Kumar and Shah 2004). According to The 2015 Colloquy Loyalty Census, American consumers own over 3.32 billion memberships in total and 29 memberships per household, increasing at an annual rate of 26%. Among those loyalty programs, most are hierarchical in nature, or hierarchical loyalty programs (HLPs), which award consumers with higher customer status and exclusive benefits if they have exceeded certain spending level (Wagner, Hennig-Thurau, and Rudolph 2009). Although HLPs are widely used, their effect on consumer loyalty intention remains largely unclear and requires more attention (Drèze and Nunes 2009; Henderson et al. 2011). On one hand, it is unclear whether consumers with different cultural backgrounds would show different responses to HLPs (Henderson et al. 2011). On the other hand, whereas most of the previous research has focused on the positive effect of status elevation in HLPs, relatively little research attention has been paid on the possible negative effect of status demotion (Wagner et al. 2009).

Building on the recent development of consumer social identity, the current research intends to explore how consumers with different cultural orientations might be different in their responses to status demotion in HLPs. Most HLPs set up a spending criterion for the members (Kumar and Shah 2004). If consumers’ spending level is lower (vs. higher) than the criterion, their status will be demoted (vs. elevated) to a lower (vs. higher) tier.

Most of the previous research in this area has focused exclusively on examining the positive effect of status elevation (Henderson et al. 2011). More recently, in their seminal work, Wagner et al. (2009) directly examined the effect of status demotion by identifying its asymmetric negative effect. That is the negative effect of status demotion is much stronger than the corresponding positive effect of status elevation, indicating HLPs can drive otherwise loyal consumers away from a firm. Based on this, the current research extends Wagner et al.’s (2009) work by proposing identity threat as a new underlying mechanism for the effect and identifying PDB as a boundary condition.

According to the social identity theory, status has significant influence on how consumers define themselves in comparison with others (Tajfel and Turner 1986). As a result, losing status or getting demoted to a lower tier would pose a threat to one’s social identity. Similarly, given the importance of HLPs status in consumers’ social identity (Bhattacharya and Sen 2003; Drèze and Nunes 2009), we expect that status demotion in HLPs is likely to cause social identity threat for the consumers.

More important, we propose the social identity threat created by status demotion would further jeopardize consumers’ loyalty intention towards the firm. This is because after experiencing social identity threat, consumers tend to protect themselves from the threat by avoiding direct link with the source of the threat (White et al. 2012). In our case, the source of the threat is the HLPs or the firm. As a result, status demotion might threat consumers’ social identity, which in turn decreases their loyalty intention.

According to the identity threat literature, to what extent consumers are threatened depends on the centrality of the domain (i.e., status) to their social identity (Sherman and Cohen 2006). One such variable describing the centrality of status to one’s social identity is power distance belief (PDB), which is a cultural construct referring to the degree of power disparity an individual expects and accepts (Hofstede 2001; Oyserman 2006). More specifically, previous research suggests status is more central to high (vs. low) PDB consumers’ social identity (Kim and Zhang 2014; Torelli et al. 2012). Thus, we propose that status demotion would cause more (vs. less) identity threat to high (vs. low) PDB consumers, which in turn causes much lower loyalty intention.

Four studies were conducted to test our theorizing. More specifically, study 1A was a 2 (PDB: high vs. low) x 3 (status change: stable vs. elevated vs. demoted) between-subjects experiment, in which we manipulated both PDB (Zhang, Winterich, and Mittal 2010) and status change (Wagner et al. 2009). The results indicate that status demotion results in much lower loyalty intention among high (vs. low) PDB consumers, supporting our theorizing. Then, study 1B replicated the findings by using real airline consumers and real airline programs.

Study 2 was a 2 (PDB: high vs. low) x 3 (status change: stable vs. elevated vs. demoted) between-subjects experiment. We measured social identity threat (White et al. 2012) to test its mediating role. The results first supported the interaction effect of PDB and status change on loyalty intention. Then, the mediation analysis based on the bootstrapping methods supported identity threat as the mediator.

Study 3 was designed to further test the mediating role of social identity threat by ruling out other possible alternative explanations such as perceived benefits and negative emotion. It was a 2 (PDB: high vs. low) x 3 (status change: stable vs. elevated vs. demoted) between-subjects designed experiment, in which we measured social identity threat (White et al. 2012), perceived benefits, and negative emotion (Wagner et al. 2009). The results supported social identity threat as the mediator, whereas failed to support wither perceived benefits or negative emotion.

Through this research, we contribute to the literature in several significant ways. First, whereas previous research on HLPs has largely focused on how consumers achieve higher status or how consumers respond to status elevation (Henderson et al. 2011), we shed lights on the understudied phenomenon of status demotion (Wagner et al. 2009). Second, this research advances our understanding for the effect of status demotion by identifying social identity threat as a new underlying mechanism. Third, this research further examines status change in HLPs from a cross-cultural perspective and finds status demotion as a cultural sensitive phenomenon. Fourth, we also advances the PDB research by introducing it into a new marketing area, HLPs, and examining its effect on consumer social identity.

REFERENCES


