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The enhanced loyalty drivers of customers acquired through referral reward programs

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Abstract

Purpose – The purpose of this paper is to extend prior research on referral reward programs (RRPs) by examining if and how the mode of customer acquisition (RRP-acquired customers vs non-RRP-acquired new customers) moderates the relationships between customer satisfaction and attitudinal loyalty, perceived switching costs and attitudinal loyalty, and attitudinal loyalty and behavioral loyalty (i.e. recommendations, cross-buying, and total spend).

Design/methodology/approach – Set in a banking context, this study is the first in an RRP context to link survey data with actual purchase data from a bank's CRM records. Specifically, the survey captured customers' satisfaction, perceived switching costs and attitudinal loyalty, whereas the CRM data provided actual loyalty behaviors (cross-buying and total spend).

Findings – The findings show that the effect of satisfaction on attitudinal loyalty, and the effects of attitudinal loyalty on recommendations, cross-buying, and total spend were stronger for RRP-acquired customers than for non-RRP-acquired new customers. Furthermore, perceived switching costs had a lower effect on attitudinal loyalty for RRP-acquired customers than for non-RRP-acquired new customers.

Practical implications – The findings offer managers a better understanding of how RRP-acquired customers differ from non-RRP-acquired new customers with regard to their satisfaction, perceived switching costs, and attitudinal and behavioral loyalty, thus enabling effective management of RRPs.

Originality/value – This is the first empirical study that explores the differences between RRP-acquired customers and non-RRP-acquired new customers with regard to the effects of satisfaction and perceived switching costs on attitudinal loyalty, and the effect of attitudinal loyalty on behavioral loyalty.

Keywords Customer satisfaction, Attitudinal loyalty, Switching costs, Behavioural loyalty, Customer acquisition, Referral reward programmes

Paper type Research paper

Introduction

Customer acquisition is challenging in today's competitive market environment. Consumers are frequently overwhelmed with product choices and are tuning out the ever-growing barrage of traditional company-driven marketing communications (Bughin *et al.*, 2010). Instead, they often prefer to make purchase decisions based on valued opinions expressed directly to them and are more likely to buy a product when recommended to do so by a person they know (Bughin *et al.*, 2010). Consequently, referral reward programs (RRPs) have assumed a growing prominence in many firms' customer acquisition strategies (Ryu and Feick, 2007; Schmitt *et al.*, 2011).

RRPs incentivize current customers (i.e. referrers) to recommend a firm's products to their friends and family members (i.e. referral recipients, or RRP-acquired customers once they bought the product). Because RRPs utilize existing customers (who are familiar with the firm's products) and as referrers to reach out to the same affinity group, their testimonies tend to be more credible and effective than other marketing channels in communicating and tailoring the value proposition and in reducing pre-purchase risk perceptions (Tuk *et al.*, 2009).

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Newly acquired customers feel confident in their decision as they trust their friends, relatives, co-workers, neighbors, or acquaintances would only recommend products they believe would be the right choice for them (Wirtz *et al.*, 2013).

There are two streams of research in the RRP literature. One stream focuses on the likelihood of an existing customer to refer a friend or acquaintance (e.g. Ryu and Feick, 2007; Wirtz *et al.*, 2013; Jin and Huang, 2014), and the other stream examines the value of the RRP-acquired customers (e.g. Garnefeld *et al.*, 2013; Schmitt *et al.*, 2011; Trusov *et al.*, 2009; Villanueva *et al.*, 2008).

In the first stream, attention is paid to potential determinants of referral behavior intentions of existing customers. For instance, Ryu and Feick (2007) investigate the impact of RRPs on referral likelihood and find that rewards increase people's referral likelihood. Wirtz *et al.* (2013) show that RRPs can have a positive, neutral, or negative effect on recommendation behavior depending on the relative strengths of the negative indirect effect of an incentive on recommendation behavior via metaperception, and the positive effect of the perceived attractiveness of an incentive on recommendation behavior. Ryu and Feick (2007) point out that rewards are particularly useful in stimulating consumers to spread word-of-mouth (WOM) beyond their usual circle of close friends and family by emphasizing the importance of tie strength. Jin and Huang (2014) examined the effects of RRPs on referral generation and found that RRPs with monetary rewards lead to less referral generation and acceptance compared to RRPs with in-kind rewards, especially when the recommended brands are weak. They further point out that compared with in-kind rewards, monetary rewards perform equally well when the reward is sufficiently large, and they perform even better when both the recommender and the receiver are rewarded.

This stream of research has also focused on response differences among rewarded and unrewarded referrals. For example, Wirtz and Chew (2002) and Ryu and Feick (2007) have shown that offering a reward increases the likelihood that consumers make referrals. On the other hand, Trusov *et al.* (2009) point out that rewarded referrals will be less effective than organic (i.e. unincentivized) WOM on recipient response. Godes *et al.* (2005) have shown that financial rewards may introduce an ulterior motive for providing a referral, which can result in skepticism on the part of the receiving consumer. Verlegh *et al.* (2013) also show that rewarded referrals tend to result in unfavorable responses when they are perceived as primarily driven by ulterior motives. According to Tuk *et al.* (2009), the presence of a financial incentive for a recommendation implies that the WOM behavior may be driven by ulterior motives triggered by both friendship (equality matching) and sales relationship (market pricing) norms. Thus, the evaluation of the recommendation depends crucially on the relationship norm activated during the interaction. The authors point out that in the short term, framing referrals as part of friendship norms increases compliance while introducing sales relationship norms in the interactions is more recommendable from a long run perspective.

The second stream of research found significant differences in terms of customer equity and lifetime value between customers who are acquired through RRPs and customers who are acquired through traditional marketing channels (e.g. Trusov *et al.*, 2009; Villanueva *et al.*, 2008). Most notably, Schmitt *et al.* (2011) investigated the extent to which RRP-acquired customers are more profitable and more loyal, and find that contribution margin, retention, and customer value were significantly and sizably higher for RRP-acquired customers. Likewise, Garnefeld *et al.* (2013) assert that RRPs are an effective means of customer acquisition by showing that participation in an RRP increases existing customers' loyalty in terms of reduced defection rates and growth in average monthly revenue compared to customers who never participated in a company's RRPs.

The second stream of research also investigated the effects of RRPs on customer loyalty as a function of customer tenure and reward size. For example, Garnefeld *et al.* (2013) show the existence of a negative interaction between RRP participation and customer tenure. Specifically, the authors show that participation in an RRP more strongly affects shorter tenured customers' loyalty than longer-tenured customers'. The authors argue that customers' participation in an RRP compels them to remain with the firm or risk perceptions that they have acted inappropriately. Longer-tenured customers instead have a history of performance on which to base their loyalty decisions, so they are less influenced by self-perception effects and the public commitment instilled by participating in an RRP. Furthermore, Garnefeld *et al.* (2013) demonstrate that RRPs with larger rewards strengthen attitudinal and behavioral loyalty, whereas smaller rewards affect only the behavioral dimension.

While this second stream of research found considerable differences of the effects of RRPs on customer equity and lifetime value across different customer groups (acquired through RRPs vs traditional marketing channels), these studies ignored key drivers (e.g. customer satisfaction, perceived switching costs, and attitudinal loyalty) of observed customer behaviors. However, it is important to include these drivers as satisfaction (e.g. Cronin and Taylor, 1992; Oliver and Swan, 1989) and perceived switching costs (Jones *et al.*, 2000) guide customers' actions and behaviors (Garbarino and Johnson, 1999; Wirtz *et al.*, 2014), and are key components in any loyalty and retention program. Wangenheim and Bayón (2007) and Westbrook (1987) also point out that satisfaction is a key determinant of WOM. Thus, the mere understanding that RRP-acquired customers bring higher value to the firm, without a deeper insight into the underlying psychological processes, does not adequately equip decision makers to manage RRP-acquired customers for value.

Further, it is also necessary to understand whether RRP-acquired customers behave differently in their relationships to providers. The service-profit chain (Heskett *et al.*, 1994) established that profit and growth are stimulated primarily by customer loyalty, and the determinants of customers' behavior in customer relationships, can be affected by the acquisition channel (Villanueva *et al.*, 2008). While this has been examined for different acquisition channels (Villanueva *et al.*, 2008), specifically the impact of RRP acquisition on the service-profit chain has not been examined yet.

In summary, given the importance of customer loyalty in customer-firm relationships (Bell *et al.*, 2005; Yim *et al.*, 2008), this study examines whether RRP-acquired customers are a different type of customers in terms of their loyalty drivers by investigating the moderating role of mode of acquisition, which has not been studied before. Specifically, this paper focuses on the moderating role of mode of acquisition (RRP-acquired customers vs non-RRP-acquired new customers) on the effects of customer satisfaction on attitudinal loyalty, perceived switching costs on attitudinal loyalty, and attitudinal loyalty on behavioral loyalty (i.e. recommendations, cross-buying, and total spend). To examine these relationships, the attitudinal data collected via a survey were combined with behavioral data captured from a firm's CRM system. The conceptual model is presented in Figure 1.

Theoretical framework and hypotheses

RRP as a moderator on the effects of customer satisfaction on attitudinal loyalty

Satisfaction is a customer's affective state resulting from an overall appraisal of his/her experience with a product (Verhoef *et al.*, 2002). The marketing literature consistently identifies customer satisfaction as a key antecedent to attitudinal loyalty (e.g. Chiou and Shen, 2006). Satisfied customers are more likely to have favorable attitudes for staying with their existing providers than are dissatisfied ones (Szymanski and Henard, 2001). Although several studies provide empirical evidence of a positive relationship between customer satisfaction and loyalty (e.g. Kumar *et al.*, 2013), there are substantial variations in the strength of the satisfaction-loyalty relationship across different factors.

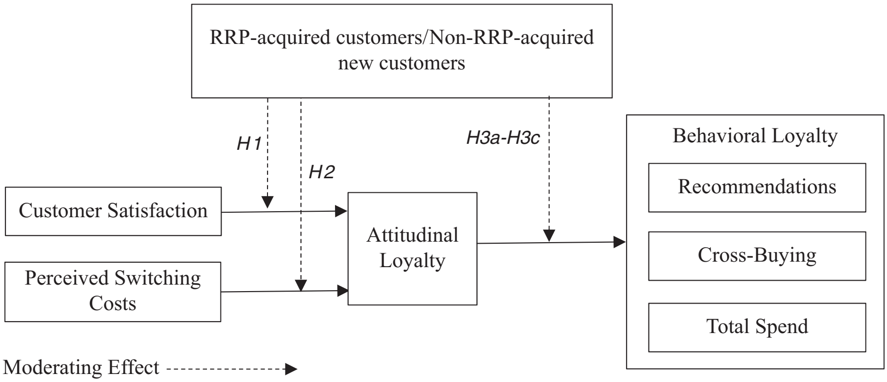

Figure 1.
Conceptual model

For example, the *t*-values for the satisfaction-repurchase intention relationship were found to range from 1.1 to 13.1 (Anderson and Sullivan, 1993). However, very few studies attempted to find reasons for the variations in the satisfaction-repurchase intention link. One notable exception is Verhoef *et al.*'s (2001) study which found that the effect of satisfaction grows on cross-buying as the length of relationship increases. The authors suggest that this result is due to an increase in confidence held by long relationship customers about their satisfaction opinion.

Furthermore, Homburg and Giering (2001) demonstrate that demographic factors such as gender, age, and income can be important moderators of the satisfaction-loyalty link. The authors show that satisfaction with the product has a significant effect on the intention to repurchase at the same distributor for men but not for women. Also, age was found to have a positive moderator effect on the relationship between satisfaction and loyalty. The effects of satisfaction on loyalty were found to be stronger for older than for younger people. Younger consumers did not appear to rely strongly on their satisfaction with the product itself but seemed to base their buying decision more on information provided by sales personnel. Further, the authors found that the relationship between satisfaction and loyalty is stronger for customers with low income than for those with high income, suggesting that product satisfaction is less important for people with high income.

While prior research discusses several variables that may moderate the satisfaction-attitudinal loyalty link, studies exploring the moderating effects of RRP on the satisfaction-loyalty link are non-existent. The considerable variability in the effects of satisfaction on loyalty observed in existing studies highlights the possibility that the relationship between these variables may be contingent on incentivized WOM arising in the context of RRP. This can be due to the powerful influence of information provided through WOM on consumers' attitudes (e.g. Herr *et al.*, 1991; Liu, 2006), and the psychological effects WOM exerts on receivers of the WOM communication (Gatignon and Robertson, 1986; Dichter, 1966). Gatignon and Robertson (1986) point out that WOM communication provides psychological benefits such as relieving decision anxiety as the recipient may be able to gain confidence from the prior experience of peers, or may be able to avoid extensive information seeking and processing by relying on personal influence.

The considerable variability of the effects of satisfaction on loyalty may also be due to the social effects on receivers of WOM communication in the context of RRPs. Gatignon and Robertson (1986) point out that various consumption domains are socially defined (e.g. fashion and automobiles) and seeking WOM information communication from friends may be important in defining group standards for the recipient. The individual may check with relevant others to determine the appropriateness of certain consumption decisions.

Such information seeking, or social checking, will be most prevalent when the individual has high identification with the group or a high desire for assimilation with the group.

With regard to organic, unincentivized WOM, Herr *et al.* (1991) found that a face-to-face WOM communication was more persuasive and often has a strong impact on product judgments because information received in a face-to-face manner is more accessible than information presented in a less vivid manner. Further, a study conducted by Liu (2006) in the context of movies showed that WOM information offers significant explanatory power for both aggregate and weekly box office revenue. The accessibility-diagnosticity theory suggests that the likelihood of a person to use any information to form an evaluation leading to a purchase decision is determined by the accessibility or availability of that information in the person's memory, and by the information's diagnosticity (Feldman and Lynch, 1988). Because of the personal and vivid nature of WOM information and the perception that it comes from a credible and trustworthy source (Wirtz and Chew, 2002), the information provided through WOM is easily accessible in memory (Herr *et al.*, 1991). Thus, WOM information has been in use by consumers extensively for evaluations, and such information has persistent impact on consumer attitudes and behavior (Bansal and Voyer, 2000; Wirtz and Chew, 2002). The relevant key characteristics (such as the personal nature of communication, persuasiveness, accessibility, vividness and credibility of personal communications) are largely identical across both types of personal referrals – organic un-incentivized WOM and incentivized referrals (RRPs). Therefore, it is suggested that the loyalty attitudes of satisfied RRP-acquired customers will be strongly influenced because of the referral received from an acquaintance (referrer) who is already a customer of the same firm.

In relation to RRPs, customer referral is an important communication channel as the means by which the transfer of trust to a referred customer occurs. When a person receives a referral through an RRP from an existing customer of a firm with whom s/he already has strong personal ties, the person becomes more involved with the firm (Van den Bulte and Wuyts, 2007). Given that RRP-acquired customers have an established personal relationship with the recommender, they tend to evaluate the company more favorably, have stronger attitudes than customers acquired through other channels (Basil and Herr, 2006), and thus hold greater confidence about their satisfaction opinion.

On the other hand, non-RRP-acquired new customers are skeptical and have inhibitions as they have not received information about the firm from a source with which they have strong personal ties. Because of this, non-RRP-acquired new customers may be less confident about their satisfaction opinion. Hence, it is expected that the effects of satisfaction on attitudinal loyalty will be stronger for RRP-acquired customers than non-RRP-acquired new customers.

It is therefore hypothesized that at a given level of satisfaction of a customer who was referred to by a person with ties leads to higher levels of initial confidence in the firm, which further results in stronger loyalty. In contrast, non-RRP-acquired new customers, although they may be satisfied, show a lower impact on attitudinal loyalty as no such initial trust gets transferred from a personal tie. Thus, the effects of satisfaction on loyalty attitudes are expected to be stronger for RRP-acquired customers than for non-RRP-acquired new customers. Thus, it is hypothesized that:

H1. Customer satisfaction has a stronger positive effect on attitudinal loyalty for RRP-acquired customers than for non-RRP-acquired new customers.

RRP as a moderator on the effects of switching costs on attitudinal loyalty

Burnham *et al.* (2003) define switching costs as the onetime costs that customers associate with the process of switching from one provider to another. The marketing literature has abundant evidence in support of a positive relationship between switching costs and loyalty.

For example, Patterson and Smith (2003) found that switching costs are related to intent to stay with the service provider by drawing support from social exchange theory (Emerson, 1976). A number of studies found that the strength of the relationship between switching costs and loyalty could vary significantly across available context. For example, Pick and Eisend (2014) examined the moderating role of marketplace characteristics on the effects of switching costs on loyalty and found that switching costs are more effective in services than goods, and in B2C than B2B contexts. Further, Tsai *et al.* (2006) found that relational orientations of a customer significantly moderate the link between switching barriers and repurchase intentions. The authors showed that the effect of switching barriers on repurchase intentions is stronger for high relational orientation customers than for low relational orientation customers. They argue that high relational orientation customers lock themselves into the relationship, and hence, there is an obligation for these customers to continue with a particular provider. In contrast, customers with a low relational orientation focus on creating individual transactions base their decisions largely on rational economic and practical criteria; therefore, they do not feel locked in.

The sizable dissimilarities relating to the effects of switching costs on loyalty seen in existing studies underscores the possibility that the relationship between these variables may also be dependent on acquisition channel, especially when acquired through an RRP. This is because of the powerful influence of information provided through WOM on consumers' attitudes (e.g. Herr *et al.*, 1991; Liu, 2006). When a customer receives a referral from a personal tie, the consumer may establish higher levels of initial confidence in that particular brand and service, and thus strengthen his/her emotional bond with it (Van den Bulte and Wuyts, 2007).

RRPs can thus be viewed as an important communication channel as the means by which the transfer of confidence occurs. This implies that when a person receives a referral through an RRP from an existing customer of a firm with which the person has personal ties, the person may establish more favorable attitudes toward the firm. Thus, an RRP-acquired customer may not want to lose the relationship with a good brand. Therefore for RRP-acquired customers, switching costs in the form of time, effort, and uncertainty become less important. Thus, these switching costs influence loyalty more strongly for non-RRP-acquired new customers (vs RRP-acquired customers).

In addition, Bell *et al.* (2005) found that customer expertise moderates the effects of perceived switching costs on customer retention. The authors point out that expert customers, despite perceiving high switching costs, are less likely to feel trapped within the relationship. Thus, switching costs become less relevant to expert customers (see also Wirtz and Mattila, 2003). An RRP-acquired customer gains expertise from the extensive product- and purchase-related information provided to him/her by the referrer who has already been a customer of the firm for some time.

Furthermore, when an individual becomes a customer of a firm because of the referral from a person with whom the individual has a close relationship, the individual may feel obliged to stay with this firm, which suggests that the effect of perceived switching costs on loyalty intentions should be weaker for RRP-acquired customers than non-RRP-acquired new customers. This is because obligations are basic components of social exchange relationships (Robinson *et al.*, 1994). In addition, social exchange theory (Emerson, 1976) suggests that people assess their reward/cost ratio when engaging in, and deciding whether or not to maintain a social relationship. For RRP-acquired customers, these rewards and costs essentially relate to interpersonal relationships and the affective bonds due to ties with their referrer. Social exchange is the cooperation between individuals for mutual benefit, and individuals' behavior is affected by information derived from other individuals through interactions (Cosmides and Tooby, 1989). Social exchange relationships between two or more individuals for mutual benefit manifest itself in many different forms including the exchange of favors between the individuals. Personal relationships require significant investments if they are to be maintained (Stafford and Canary, 1991), and must be supplemented with behavioral exchanges to sustain the relationships (Berg and Clark, 1986). The concept of dependence in social relationships (Emerson, 1962) can also assist in explaining why referee-referrer relationships are maintained.

From the above discussion, it can be derived that RRP-acquired customers' loyalty attitudes are strongly based on affective bonds arising out of the association and strong ties with their referrer who is already a satisfied customer of the firm (Van den Bulte and Wuyts, 2007). In contrast, non-RRP-acquired new customers do not experience these affective bonds and therefore their affective loyalty may be more heavily driven by perceived switching costs and therefore are "held" or "tied to the firm" more because of switching costs. Hence, the effects of perceived switching costs on attitudinal loyalty are expected to be weaker for RRP-acquired customers than for non-RRP-acquired new customers. Hence, the following hypothesis is advanced:

H2. Perceived switching costs have a weaker positive effect on attitudinal loyalty for RRP-acquired customers than for non-RRP-acquired new customers.

RRP as a moderator on the effects of attitudinal loyalty on behavioral loyalty

Attitudinal loyalty refers to a customer's liking, deep commitment, and a positive psychological attachment to the firm, whereas behavioral loyalty refers to the customer's act of staying with the firm and their repurchasing and purchase frequency (Dick and Basu, 1994; Hansen *et al.*, 2003). Several studies found that attitudinal loyalty exerts a positive impact on behavioral loyalty (e.g. Dick and Basu, 1994; Garnefeld *et al.*, 2013). In addition, there is evidence that many factors moderate the attitudinal loyalty-behavioral loyalty link. For example, Evanschitzky and Wunderlich (2006) found that loyalty card membership moderates the link between attitudinal and behavioral loyalty. The authors found that the effect of attitudinal loyalty on behavioral loyalty was stronger for loyalty card owners than customers who do not own a loyalty card.

While there is enough evidence for the direct effects of attitudinal loyalty on behavioral loyalty, and that many factors moderate the attitudinal loyalty-behavioral loyalty link, it is suspected that RRP referral is an additional factor that moderates the link between attitudinal and behavioral loyalty. For example, Garnefeld *et al.* (2013) show that the attitudinal loyalty of referrers (recommenders) exerts a positive impact on their behavioral loyalty and that the impact is moderated by their participation in the RRP. From this finding, it can be assumed that RRP participation possibly also moderates the effects of attitudinal loyalty on behavioral loyalty for referred customers (inductees). This may be because RRP referrals are generally targeted to individuals (e.g. friends, neighbors, relatives, colleagues, and acquaintances) whom the referrer can positively influence. RRP-acquired customer's positive pre-existing attitudes toward the referrer derived from personal ties may enhance the effects of his/her loyalty attitudes toward the firm on loyalty behavior. Brown and Reingen (1987) suggest that information from strong-tie referral sources exerts more influence in receivers' decision making. This may be because referred customers are likely to have discussed the firm's offerings with their referrer, and therefore have informational advantages (Schmitt *et al.*, 2011), which in turn may create greater confidence leading to greater engagement with the firm. Furthermore, service customers rely on the opinions of other customers when forming their expectations about and evaluating the service (Bansal and Voyer, 2000), and in a WOM context, the influence on recipients' purchase decisions is moderated by their information search and perceived risk (Bansal and Voyer, 2000).

From the above discussion, it is assumed that referred customers are likely to use the company's products and services more extensively and faster than non-RRP-acquired new customers, who may be more prone to take a cautious approach because of lack of informational advantage and inadequate confidence about the firm. Thus, RRP referral might serve as a stronger aid in transforming attitudes into action. Therefore, the influence of attitudinal loyalty on behavioral loyalty is expected to be stronger for RRP-acquired customers than for non-RRP-acquired new customers. Thus the hypothesis:

H3. Attitudinal loyalty has a stronger positive effect on behavioral loyalty, including on (a) recommendation behavior, (b) cross-buying, and (c) total spend for RRP-acquired customers than for non-RRP-acquired new customers.

Method

This study was conducted in the context of retail banking. This context is appropriate for this research due to the high level of competition in the industry. Furthermore, trust plays an important role in customer-firm relationships in the banking context (Schmitt *et al.*, 2011), which has led to a considerable number of retail banks using RRPs. Additionally, RRPs are especially appropriate in industries with contractual or membership-like customer relationships (Lovelock and Wirtz, 2011). In such industries, customer behavior can be traced more easily through customer transaction records, which in turn help to reward existing customers for successfully recommending new customers to the firm.

Sample

CRM data from the internal company records of a leading international bank and survey data were used for this study. Survey data were combined with actual company transaction data for the study to reduce the concerns of common method bias, simultaneity, and endogeneity (MacKenzie and Podsakoff, 2012; Seiders *et al.*, 2005). Initially, the bank's customer transaction records were used to identify RRP-acquired customers and non-RRP-acquired new customers who were acquired six months preceding the survey. Next, 300 customers were selected at random from each of the two categories of new customers: acquired through the bank's RRP, and acquired through other marketing channels (e.g. sales personnel in the bank branches, website promotions, and other forms of marketing communications) over the same period.

As part of the RRP, the bank offered rewards only to the referrer. The reward offered was non-monetary in nature and the value of the rewards was approximately the same for all referrers. A set of products (e.g. coffeemaker, iPod, etc.) was offered to referrers to choose from. The reward was given only after a new customer had been signed on for one of the financial products offered by the bank. It is possible that the sample of customers acquired through other channels may include some customers acquired through organic WOM (Schmitt *et al.*, 2011), but there were no rewards given unless a referral was channeled through the bank's RRP. The approach used for this study to categorize new customers into two groups (RRP-acquired and non-RRP-acquired) is consistent with past studies in this field (e.g. Schmitt *et al.*, 2011).

Data on key attitudinal variables were collected from the selected customers by telephone interviews conducted by a professional market research firm. From this, complete data (from the survey and the internal bank records) were available for a total of 470 customers, which were used for final analysis. The demographics of the final sample are presented in Table I.

Measures

Empirically validated scales from past studies were employed to measure the variables included in the study. All items were measured using seven-point Likert-type scales anchored at 1 = "Strongly Disagree" and 7 = "Strongly Agree." Two items adapted from

Demographic	Response categories	% of sample
Mode of acquisition	Yes (RRP-acquired customers)	50
	No (non-RRP-acquired new customers)	50
Gender	Male	47
	Female	53
Age	Under 25	26
	25-40	32
	41-50	22
	Over 50	20
Monthly household income	Up to €1,000	34
	€1,001 to €2,000	29
	€2,001 to €3,000	18
	€3,001 to €4,000	10
	Over €4,000	9
Marital status	Single	44
	Married	34
	Divorced	12
	Others	10

Table I.
Sample profile

Jones *et al.* (2000) were employed to assess consumers' perceived switching costs. Customer satisfaction was measured using three items adapted from Fornell *et al.* (1996). For the purpose of this study, attitudinal loyalty is defined as a customer's behavioral intention to continue to use the bank's products and services in the future, accompanied by a deep commitment to the bank. The three-item scale used in the current study was adapted from the behavioral intention battery developed by Zeithaml *et al.* (1996). Behavioral loyalty was operationalized along three dimensions: recommendations (self-reported), total spend, and cross-buying (the latter two variables were obtained from the bank's CRM database).

First, recommendation behavior was measured by adapting items from Zeithaml *et al.* (1996). The item, "I often recommend […]" was used to capture several facets of recommendation behavior (e.g. to close relatives and friends, to colleagues and acquaintances). These items are more specific than the original formulation as they ask the respondent regarding their recommendation behavior toward specific "target groups" as it is easier for respondents to remember the recommendation situations.

Second, total spend relates to the average amount in euro spent by the customer with the bank (i.e. total charges, transaction fees, and interest on borrowings) for availing various banking products based on the bank's transaction records for a six-month period. Third, the cross-buying data relate to the total number of products a customer purchased from the bank (e.g. current account, saving account, mortgage, and mutual funds). The number of products purchased by respondents ranged from one to seven.

Results

Measure validation

A confirmatory factor analysis was conducted to assess the reliability and validity of all the constructs in the model. The results presented in Table II indicate a reasonable degree of internal consistency among the corresponding indicators; customer satisfaction ($\alpha = 0.85$), perceived switching costs ($\alpha = 0.77$), attitudinal loyalty ($\alpha = 0.79$), and recommendations ($\alpha = 0.94$), with all coefficient α values exceeding the recommended threshold value of 0.70 (Nunnally, 1978). An examination of the factor loadings of all the items in each construct demonstrated empirical support for the proposed theoretical factor structure.

In addition, the correlations among the variables were examined separately for the aggregate data, RRP-acquired customer group, and other new customer group. The bivariate

Variables	Operationalization/measurement items	Cronbach's α	Factor loadings
Survey data			
Customer satisfaction (Fornell *et al.*, 1996)	1. Bank X absolutely fulfills my expectations	0.85	0.86
	2. Overall, I am very satisfied with Bank X		0.85
Perceived switching costs (Jones *et al.*, 2000)	1. Switching to another bank would involve a big effort for me	0.77	0.78
	2. Switching to another bank would involve significant uncertainty for me		0.85
Attitudinal loyalty (Zeithaml *et al.*, 1996)	1. I intend to use additional products of Bank X in the future	0.79	0.83
	2. Bank X is my first choice in the context of banks		0.65
	3. I am glad to be customer of Bank X and would not change it with another bank, even if I could		0.66
Recommendations (Zeithaml *et al.*, 1996)	1. I often recommend Bank X	0.94	0.89
	2. I often recommend Bank X to close relatives and friends		0.89
	3. I often recommend Bank X to colleagues and acquaintances		0.84
	4. I often recommend Bank X when somebody is asking me about related advice		0.77
	5. I often tell positive things about Bank X when I am asked		0.67
CRM data			
Mode of acquisition	0 = customers acquired through other marketing channels 1 = RRP-acquired customers		
Cross-buying	The total number of products purchased from the bank: (min. 1; max. 7)		
Total spend	Amount received in euro by the bank from a customer over the 6 month period		

Table II.
Measurement items

correlation coefficients for all pairs of independent variables were low (see Table III). Further, the variance inflation factors of the predictors (Stevens, 2012) were very low (< 2.23), suggesting the absence of multicollinearity.

Furthermore, the relationship between the attitudinal variables from the survey and the behavioral variables from observed behaviors from the CRM data are as expected, suggesting nomological validity.

The study employed AMOS 19.0 to model the structural relationships in the proposed theoretical framework (see Fig. 1). The measures of overall fit for the model are: χ^2 (18) = 45.8, RMSEA = 0.05, GFI = 0.97, NFI = 0.95, and CFI = 0.97, suggesting that the proposed model fits the data relatively well (Browne and Cudeck, 1993).

To examine the hypothesized effects of RRP-acquired customers vs non-RRP-acquired new customers on the relationships in the model, a multi-group moderation analysis was conducted. The two models were compared to determine whether there are differences between the two groups. In the first model, the parameter related to each link was restricted to be equal for both groups (i.e. the restricted model). In the second model, a free estimation of this parameter's causal path was allowed (i.e. the non-restricted model). The statistical significance of the incremental contribution of freeing that causal link was then tested using the χ^2 difference between the restricted and non-restricted models.

On the basis of this analysis, a number of differences were found between the two groups (see Table IV for the formal significance tests and causal path parameters for all models). First, the path between customer satisfaction and attitudinal loyalty is stronger for RRP-acquired customers ($\gamma = 0.85$, $p < 0.01$) than for non-RRP-acquired new customers ($\gamma = 0.72$, $p < 0.01$).

Variable	Mean	SD	1	2	3	4	5	6	7
Total sample									
1. Mode of acquisition	0.50	0.50	1.00						
2. Customer satisfaction	5.87	1.15	0.18	1.00					
3. Perceived switching costs	4.09	1.99	0.14	0.42	1.00				
4. Attitudinal loyalty	4.93	1.59	0.26	0.69	0.51	1.00			
5. Recommendations	4.45	1.86	0.28	0.56	0.44	0.68	1.00		
6. Cross-buying	1.70	0.93	0.27	0.18	0.16	0.29	0.68	1.00	
7. Total spend (in euro)	835	1,099	0.29	0.32	0.24	0.47	0.29	0.27	1.00
RRP-acquired customers									
1. Mode of acquisition	1.00								
2. Customer satisfaction	6.08	1.09		1.00					
3. Perceived switching costs	4.39	2.08		0.36	1.00				
4. Attitudinal loyalty	5.35	1.44		0.72	0.45	1.00			
5. Recommendations	4.96	1.70		0.57	0.34	0.65	1.00		
6. Cross-buying	1.96	1.09		0.30	0.20	0.47	0.34	1.00	
7. Total spend (in euro)	1,051	1,076		0.18	0.14	0.40	0.17	0.33	1.00
Non-RRP-acquired new customers									
1. Mode of acquisition	1.00								
2. Customer satisfaction	5.67	1.18		1.00					
3. Perceived switching costs	3.82	1.87		0.46	1.00				
4. Attitudinal loyalty	4.52	1.64		0.67	0.56	1.00			
5. Recommendations	3.51	1.54		0.53	0.51	0.69	1.00		
6. Cross-buying	1.45	0.65		−0.10	0.01	−0.07	−0.02	1.00	
7. Total spend (in euro)	620	1,082		0.22	0.18	0.27	0.18	0.04	1.00

Notes: Mode of acquisition is a dichotomous variable (0 = acquired through other marketing channels; 1 = acquired through RRP), which was included to show its relationship with all IVs and DVs in our study. All observations are based on CRM data, and all other variables are attitudinal data from the survey; All correlations are statistically significant at $p < 0.05$

Table III. Correlations for the total sample and the RRP-acquired and other customer subsamples

Hypothesized model parameters	Moderator variable: RRP-acquired customers	Moderator variable: Non-RRP-acquired new customers	χ^2	χ^2 difference (Δdf = 1)
Customer satisfaction→attitudinal loyalty	0.85**	0.72**	50.3	$\Delta\chi^2 = 4.45$*
Perceived switching costs→attitudinal loyalty	0.15**	0.28**	51.3	$\Delta\chi^2 = 5.45$*
Attitudinal loyalty→recommendations	0.77**	0.66**	50.8	$\Delta\chi^2 = 4.95$*
Attitudinal loyalty→cross-buying	0.35**	−0.03	98.7	$\Delta\chi^2 = 52.85$**
Attitudinal loyalty→total spend	296.30**	178.33**	53.4	$\Delta\chi^2 = 7.55$**

Notes: RMSEA, root mean square error of approximation; GFI, goodness-of-fit index; NFI, normed fit index; CFI, comparative fit index. Model fit statistics: $\chi^2(18) = 45.8$; RMSEA = 0.05, GFI = 0.97, NFI = 0.95, CFI = 0.97. Standardized estimates are reported. **$p < 0.01$; *$p < 0.05$

Table IV. Model test results

The difference with regards to the effect of customer satisfaction on attitudinal loyalty is significant ($\Delta\chi^2 = 4.45$, $p < 0.05$) and in the predicted direction, thus providing support for *H1*.

Second, a significant moderating effect of mode of acquisition was found on the relationship between perceived switching costs and attitudinal loyalty ($\Delta\chi^2 = 5.45$, $p < 0.05$). The path between perceived switching costs and attitudinal loyalty for RRP-acquired customers was weaker ($\gamma = 0.15$, $p < 0.01$) than for non-RRP-acquired new customers ($\gamma = 0.28$, $p < 0.01$), hence supporting *H2*.

Third, significant moderation effects were found for the links between attitudinal loyalty and all three behavioral dependent variables: recommendations ($\Delta\chi^2 = 4.95$, $p < 0.05$), cross-buying ($\Delta\chi^2 = 52.85$, $p < 0.01$), and total spend ($\Delta\chi^2 = 7.55$, $p < 0.01$). Examining the path coefficients, the relationship between attitudinal loyalty and recommendations was found to be stronger for RRP-acquired customers ($\gamma = 0.77$, $p < 0.01$) than for non-RRP-acquired new customers ($\gamma = 0.66$, $p < 0.01$), supporting *H3a*. Consistent with *H3b*, the effect of attitudinal loyalty on cross-buying was significant for RRP-acquired customers ($\gamma = 0.35$, $p < 0.01$) and not significant for non-RRP-acquired new customers ($\gamma = -0.03$, $p > 0.10$). Finally, the effect of attitudinal loyalty on total spend was found to be significantly stronger for RRP-acquired customers ($\gamma = 296.30$, $p < 0.01$) than for non-RRP-acquired new customers ($\gamma = 178.33$, $p < 0.01$), supporting *H3c*.

Discussion and implications

Thus far, research relating to RRPs has essentially focused on measuring the impact of RRPs on contribution margin and customer retention (e.g. Schmitt *et al.*, 2011), examining the influence of RRPs on referral likelihood (e.g. Ryu and Feick, 2007), and optimizing RRPs under different contexts (e.g. Xiao *et al.*, 2011). These studies have shown that RRP-acquired customers are more valuable to firms than non-RRP-acquired new customers in terms of customer retention, referrals, and profit margins. While these findings are useful to firms, they are not adequate. The reason is that merely understanding that RRP-acquired customers are of higher economic value does not adequately equip managers to manage RRPs effectively in the current competitive market environment. As the drivers of customer attitudes and behavior are dynamic (Johnson *et al.*, 2006), a deeper insight into the psychological processes of consumers (i.e. customer attitudes and perceptions) that influence observed loyalty behaviors it is necessary.

This study addresses the above gap in the context of RRPs. Specifically, the study documents the influence of customer satisfaction, switching costs, and attitudinal loyalty on loyalty behaviors for RRP-acquired customers, and investigates the differences between RRP-acquired customers and non-RRP-acquired new customers with regard to the effects of satisfaction and switching costs on attitudinal loyalty, and the effect of attitudinal loyalty on behavioral loyalty. The study is unique in its approach as it combines attitudinal survey data with actual transaction data to explore the hypothesized relationships. This is significant as purchase data represent an important complement to customer self-reported data (Seiders *et al.*, 2005). This study makes the following specific contributions.

First, it examines the impact of customer satisfaction on attitudinal loyalty for RRP-acquired customers and customers acquired through other channels. The results indicate that while customer satisfaction positively influences attitudinal loyalty for both types of customers, the effects of satisfaction on attitudinal loyalty are significantly stronger for RRP-acquired customers than non-RRP-acquired new customers. This finding suggests that a customer acquired by the firm through an RRP becomes more involved with the firm, evaluates the company more favorably, and has stronger attitudes toward the firm than non-RRP-acquired new customers. In short, RRP-acquired customers are more valuable to the firm as a firm's investments in increasing customer satisfaction result in higher satisfaction and are more productive for RRP-acquired customers than non-RRP-acquired new customers with similar demographics and time of acquisition.

Second, this study investigates the impact of mode of customer acquisition (RRP vs other channels) on the effects of perceived switching costs on loyalty intentions. The effect of perceived switching costs on attitudinal loyalty was found to be weaker for RRP-acquired customers than for non-RRP-acquired new customers. This implies that switching costs become less important for RRP-acquired customers. This may be because the relationship with the referrer helps RRP-acquired customers to gain personalized product-and purchase-related information from the referrers. In addition, RRP-acquired customers have personal relationships with the referrers (existing customers who have been customers of the bank for some time) and thus have stronger affective bonds with the firm and therefore switching costs are less relevant for their loyalty intentions. Additionally, given that satisfied customers are more likely to make a recommendation to others (Ha and Im, 2012), RRP-acquired customers are more confident about and will rely more on their satisfaction with the bank as they know that the customers who recommended them also are satisfied with the bank. Their satisfaction with the bank is more stable as thus is more effective in driving subsequent behaviors.

Third, the study examined the differences in the impact of mode of acquisition on the relationship between attitudinal and behavioral loyalty for RRP-acquired and non-RRP-acquired new customers. The results show that the effects of attitudinal loyalty on behavioral loyalty (i.e. recommendations, cross-buying, and total spend) are stronger for RRP-acquired customers than for non-RRP-acquired new customers. This suggests that loyal RRP-acquired customers will generate considerably more business (i.e. referrals), purchase more products (i.e. more cross-buying opportunities), and spend more (i.e. total spend), thus delivering significantly more value to the firm than loyal non-RRP-acquired new customers. Their attitudinal loyalty is more profound and thus a stronger driver of their relationship behaviors. RRP-acquired customers' loyalty behavior may be more determined by relational factors, whereas customers acquired by other marketing channels are more open to other factors (e.g. promotional offers by competitors) that might influence their buying decisions. In addition, customers' participation in RRPs could compel them to remain with the firm or risk perceptions that they have acted inappropriately (Garnefeld *et al.*, 2013). Furthermore, as engaging in WOM can reduce cognitive dissonance (Tax and Chandrashekaran, 1992; Wangenheim and Bayón, 2007), participation in RRP could reduce customer's uncertainty about the provider.

Contributions to theory

By examining the relative impact of mode of customer acquisition (RRP vs other marketing channels) on the relationship between customer attitudes and perceptions (satisfaction and perceived switching costs) and loyalty intentions, and on the relationship between loyalty intentions and loyalty behavior, this study makes several important contributions to the extant literature.

First, previous research of WOM and RRPs takes a firm value perspective (e.g. sales and contribution margin; optimizing RRPs). This study explored the stage behind this perspective by studying the two important forces: satisfaction and switching costs that drive customer loyalty. The study focused on RRP-acquired and non-RRP-acquired customers and examined: the interaction effects of satisfaction and mode of customer acquisition (RRP vs other channels) on loyalty intentions; and the interaction effects of switching cost and mode of customer acquisition (RRP vs other channels) on loyalty intentions. These are important theoretical contributions to the relationship marketing literature in general and the RRP literature in particular.

Second, this study improves the understanding of loyalty by demonstrating the role of WOM, delivered through RRPs, in fostering loyalty. The study demonstrates that RRP-acquired customers are more valuable to the firm by showing that firm' investments in increasing customer satisfaction are more productive and result in higher satisfaction for RRP-acquired customers, than non-RRP-acquired new customers. This finding contributes to the theoretical literature on customer satisfaction by complementing prior literature that investigates customer satisfaction's impact on organizational outcomes (e.g. Luo and Homburg, 2007) and contributes toward extending marketing strategy models that are based on loyalty (Rust *et al.*, 2004).

Third, this is the first study to examine and test the responses implications of perceived switching costs in an RRP setting. The results of the study show that switching costs are less relevant for RRP-acquired customers than for non-RRP-acquired new customers. In brief, investments in the establishment of switching costs to enhance the loyalty of RRP-acquired customers as part of customer retention strategy are less effective. This finding is an important contribution to switching costs literature given the extensive use of switching costs by firms as a customer retention strategy (Blut *et al.*, 2014).

Fourth, this study contributes to the RRP literature by examining the two types of loyalty in the model: attitudinal and behavioral loyalty (Chaudhuri and Holbrook, 2001). This does not appear to have been examined in previous research. By examining the impact of mode of acquisition on attitudinal and behavioral loyalty, this study makes an important contribution to the extant relationship marketing literature. Investigating both attitudinal and behavioral dimensions of customer loyalty enables a causal perspective thereby permitting the identification of the factors that influence loyalty (Dick and Basu, 1994).

Fifth, research on RRPs thus far has focused mostly on the outcome variables of referrals intentions or referral behaviors. In contrast, the present study examined the interaction effects of loyalty intentions and mode of customer acquisition (RRP vs other channels) on the three important outcome variables – referrals, cross-buying, and total spend. This is an important theoretical contribution to customer loyalty literature in general and RRP literature in particular.

Finally, past studies were predominantly based on self-reported survey data with hypothetical RRP scenarios (not real RRP programs). In contrast, this study combines actual transaction data from company records with attitudinal data collected from RRP-acquired and non-RRP-acquired customers of one particular bank. This is an important methodological contribution to RRP research.

Managerial implications

Referral has been identified as an important source of customer acquisition, especially in industries in which it is difficult for potential customers to evaluate the service in advance (Dobele and Lindgreen, 2011). Thus, there has been a considerable increase in the usage of RRPs as a marketing tool. RRPs play an important role in enhancing firm value through the cost-effective acquisition of new customers. However, managers face competing demands for their resources and aim to maximize the returns from RRP investments. Thus, gaining insight into the added value of this strategy to build successful and profitable relationships with customers is important. Toward this, the first step is to gain a better understanding of how customers acquired through RRPs vary from customers acquired through other channels with regards to their attitudes, perceptions, and behaviors.

The results of the study highlight that the effects of satisfaction on attitudinal loyalty are significantly stronger for RRP-acquired customers than non-RRP-acquired new customers. This finding suggests that investments made by the firm in enhancing customer satisfaction will be more productive for RRP-acquired customers than for non-RRP-acquired new customers. In short, RRP-acquired customers are more valuable to the firm as firms' investments in increasing customer satisfaction result in higher attitudinal and behavioral loyalty than non-RRP-acquired new customers with similar demographics and time of acquisition. This finding is of particular importance as firms invest substantial resources for increasing customer satisfaction, and the costs related to customer satisfaction account for the largest portion of the annual marketing budget (Wilson, 2002).

Needless to say, it is important for managers to develop well-designed customer satisfaction programs for increased customer loyalty. However, such customer satisfaction programs should be properly managed to enable acquisition of new customers through RRPs. By understanding the role of RRPs in affecting the connection between satisfaction and loyalty, firms can take advantage of the structure of RRPs. RRPs accompanied by well-designed customer satisfaction programs can be effective in increasing customer loyalty and retention. Therefore, managers should not only focus on acquiring new customers through RRPs, but also make adequate investments to ensure that high satisfaction levels among these customers are achieved. Managers could target initiatives such as enhanced service levels and customer benefits specifically for RRP-acquired customers. Such a strategy could even be used as a tool to make RRPs more attractive for potential referrers who would be able to communicate special benefits to potential customers with impression management benefits (e.g. Xiao *et al.*, 2011).

The finding that the effect of perceived switching costs on attitudinal loyalty is weaker for RRP-acquired customers than non-RRP-acquired new customers implies that switching costs become less important for RRP-acquired customers. This means that investments relating to the establishment of switching costs are less effective for RRP-acquired customers in comparison to non-RRP-acquired new customers. This finding is especially important for managers as firms make considerable efforts in creating switching costs to enhance customer loyalty as part of customer retention strategy (Pick and Eisend, 2014; Wirtz *et al.*, 2014). In addition, rather than focusing on negative In order to make these investments productive, managers need to have an understanding of the role of mode of customer acquisitions (RRP vs other marketing channels) and focus on non-switching barrier-based retention strategies particularly for RRP-acquired customers.

Furthermore, the results highlight that loyal RRP-acquired customers provide substantially more recommendations for the bank's products and services than loyal non-RRP-acquired new customers. Managers should, therefore, embed RRP as an important component of the firm's customer acquisition strategy. There is a high likelihood of loyal RRP-acquired customers organically turning into referrers over time. To enable this, managers should create awareness of referral programs among customers, and encourage customers to participate in these programs. The finding that loyal RRP-acquired customers purchase more of the firm's products and services (cross-buying) and spend more (as demonstrated by total spend) than loyal non-RRP-acquired new customers has also significant managerial implications. Managers should leverage the positive attitudes and behavior of RRP-acquired customers in their customer acquisition strategies. Managers should target their cross-buying efforts (i.e. introduction of new products or complementary products) to customers acquired through RRPs to gain maximum value as these efforts will be more effective among this customer group.

In summary, while it is imperative to gain loyalty from all customers, this study demonstrated the importance and additional advantages of gaining loyalty from RRP-acquired customers. The study has shown that for a given level of satisfaction, RRP-acquired customers show higher levels of attitudinal loyalty, which in turn leads to higher behavioral loyalty (i.e. recommendations, increased revenues, and cross-buying). In order to achieve these outcomes, managers should invest their efforts and resources in driving loyalty among new customers acquired through RRPs. The study highlights that investment in gaining favorable attitudes and loyalty from RRP-acquired customers has the ability to not only enhance customer relationships but can have a positive impact on firms' financial performance. Finally, this study contributes to the growing literature that demonstrates the overall high-value RRPs generate for service organizations.

Limitations and further research

The limitations of this study provide several opportunities for further research. The attitudinal and purchase data for the study were collected from customers of one RRP, in one bank and in one country, thus potentially limiting the generalizability of the findings. Future research could contrast different types of RRPs, across various industries (e.g. nonfinancial services), products with different purchase cycles (e.g. transactional and contractual services), and with different levels of customer involvement with the service. These conjectures can only be tested through replications of the model in different settings, countries, and types of RRPs (e.g. with different types of rewards). In addition, the differences among RRP-acquired customers and non-RRP-acquired new customers may have been influenced by several other factors (e.g. commitment, customers' relationship proneness, referrers' tenure of relationship with the bank, etc.) that were not considered in this study. Future research could consider these factors.

This study compared RRP-acquired customers with individuals acquired through a wide variety of other channels: sales personnel in the bank branches, website promotions, and other forms of marketing communications. The sample of customers acquired through other acquisition channels might have received traditional WOM (organic WOM as stated by Schmitt *et al.*, 2011), but certainly, have not received any reward as a new customer. These acquisition channels were not treated differently in this study. Grouping together customers acquired through a variety of acquisition channels under "non-RRP-acquired new customers" prevented us from identifying the specific effect of each individual channel. Thus, only the overall effect of all customers acquired through non-RRP acquisition channels was assessed in this study. Therefore, the conclusions about the relative importance of RRPs in building profitable relationships compared with other channels must be treated with caution.

Furthermore, the results of this study possibly underestimate the value differential between RRP-acquired customers and non-RRP-acquired new customers as the sample of the customers grouped as "acquired through other channels" in this study may include a small number of customers who received traditional (organic) WOM. Notwithstanding this, the results of this study show that RRP-acquired customers have stronger paths to loyalty. However, to gain further insights into this emerging topic, future research could focus on identifying the specific effect of each individual channel instead of grouping together all customers acquired through non-RRP acquisition channels.

Frequently, RRPs offer benefits both to the referrer and to the referred customers. These benefits could possibly have contributed to the differences that were observed on the chain of effects from satisfaction to attitudinal loyalty to behavioral loyalty among RRP-acquired customers and non-RRP-acquired new customers. Future research could control for the value of rewards received by the RRP-acquired customers in order to distinguish between the level of attitudes and behaviors that can be attributed to the reward and the level that can be attributed to the program itself (the recommendation provided by a referrer).

Notwithstanding its limitations, this study makes a number of valuable contributions to the literature on RRP-acquired customer attitudes, perceptions, behaviors, and value. Hopefully, these contributions will inspire further research in this area.

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