

Managing the Bright and Dark Sides of Status Endowment in Hierarchical Loyalty Programs

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Abstract

In service industries, hierarchical loyalty programs are common relationship marketing instruments that award elevated status to customers who exceed a certain spending level (e.g., gold membership). In practice, service companies offer elevated status to some customers who do not meet the required spending level, in an attempt to profit from the profound allure of status. Relying on social psychology research and a mixed-method approach, this study analyzes the loyalty impact of status endowments, defined as awards of elevated status to customers who are not entitled to it. An exploratory qualitative study identifies customer gratitude and customer skepticism as positive and negative mediators, respectively, of customers' attitudinal responses to endowed status. Quantitative studies—two experimental and one survey—substantiate these bright and dark sides of endowed status. The efficacy of status endowment is contingent on the context. To alleviate the dark-side effect, managers can allow target customers to actively choose whether to be endowed, especially those who are close to achieving the status already, and provide valuable preferential treatment to customers elevated by either endowment or achievement. These insights offer guidelines for whether and how to use status endowment in hierarchical loyalty programs.

Keywords

loyalty programs, gratitude, skepticism, qualitative research, experimental research, survey research

In hierarchical loyalty programs, service firms reward customers not only on the basis of their repeat purchasing (Lemon and von Wangenheim 2009) but also according to whether they exceed certain spending levels (Wagner, Hennig-Thurau, and Rudolph 2009). The resulting elevated customer status typically entails preferential treatment, with both tangible (e.g., increased rewards) and intangible (e.g., recognition) benefits for the customer. When companies effectively stratify their customers according to a defined hierarchy with several tiers (Drèze and Nunes 2009), elevating a customer's status can evoke positive attitudinal and behavioral responses (e.g., Drèze and Nunes 2011; Lacey, Suh, and Morgan 2007) and stronger alignment between the costs required to serve a customer and that customer's value to the firm (Kumar and Reinartz 2012). Hierarchical loyalty programs thus appear in many different service industries, including airlines (e.g., American Airlines AAdvantage), hotels (e.g., Starwood Preferred Guest), retail (e.g., Nordstrom Rewards), financial services (e.g., American Express Centurion), restaurants (e.g., My Starbucks Rewards), and entertainment (e.g., Regal Crown Club).

Some companies award customers who are likely to represent high value for the firm before they achieve the spending level predefined by the loyalty program's rules (Kumar and Shah 2004). Thereby, companies take advantage of the profound allure of status to stimulate customers' loyalty (Henderson, Beck, and Palmatier 2011). In that case, the elevated status

is endowed rather than achieved, because its attainment is beyond customers' control (Drèze and Nunes 2009), making it both surprising and unexpected, with the potential for both positive and negative emotional responses.

Although status endowment is not yet a standard tool in customer loyalty programs, several service firms have begun experimenting with it, including Accor Hotels (2011; A|Club), Hertz Car Rental (2011; Hertz Gold Plus Rewards), and Hilton Hotels & Resorts (Hilton HHonors; upgrd.com 2010). An Internet search of company websites and customer forums reveals that among the top 100 North American loyalty programs, status endowment exists in more than 40% of those that rely on hierarchical programs. Beyond these largest programs, many other cases of endowed status across different programs in various industries were identified. Thus, status endowment is a substantive issue and a potentially appealing option for

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companies that have yet to start making use of it. However, the emotional, attitudinal, and behavioral consequences of such status endowment efforts are not well understood, so scholarly research has a chance to provide marketing practitioners with an in-depth understanding of this unique customer management instrument, before it becomes a standard tool.

Recent articles (Butori and De Bruyn 2013; Jiang, Hoegg, and Dahl 2013; Zhang and Huang 2010) show that benefit endowment is a common marketing practice that requires scientific investigation. Endowment not only induces positive effects on target customers—as suggested by conventional wisdom—but also may bring about negative effects that undermine the effort to provide customers with unearned benevolence. For example, feeling overly benefited might cause embarrassment or social discomfort among target customers (Jiang, Hoegg, and Dahl 2013). We contribute to and extend this growing stream of research by investigating the effects of endowing elevated customer status on members of hierarchical loyalty programs.

More specifically, we seek to make three contributions. First, we analyze customers' positive and negative loyalty responses when they have been endowed with elevated status. Our results suggest that endowed status is less effective in enhancing customer loyalty than is achieved status. We thus provide a broader perspective on the use of status as a loyalty-inducing mechanism in hierarchical loyalty programs, unlike extant research that assumes elevated status can only be achieved by customers (Drèze and Nunes 2009).

Second, we theoretically develop and empirically substantiate a process model with bright- and dark-side mediating mechanisms, through which endowed elevated customer status influences customer loyalty. Specifically, customer gratitude is an important bright-side mechanism that links relationship marketing investments to relationship performance (Palmatier et al. 2009), whereas customer skepticism can undercut the loyalty-increasing potential of relationship marketing investments if corporate actions seem unexpected (Forehand and Grier 2003). Our findings indicate that customer skepticism is a relevant, underexplored element of customer relationships.

Third, we identify and empirically test how status endowment designs and the value associated with the preferential treatment might attenuate skepticism-related dark-side effects. In theorizing about the importance of attributions (Wagner, Hennig-Thurau, and Rudolph 2009), we establish guidelines for managers to use when designing status endowment programs. That is, companies should give targeted customers an active choice about being endowed and select target customers who already are close to achieving elevated status on their own. Moreover, managers should make sure to provide preferential treatment that is valued by customers.

To explore the bright and dark sides of status endowment, we adopted a mixed-method approach and combined qualitative with quantitative research. In Table 1, we summarize the four studies that we conducted as part of this research program. In the next section, we explore customer responses to endowed status in a qualitative study, which identifies the key roles of

gratitude and skepticism. After we present our hypotheses, we provide the results of an experimental study, conducted among a representative consumer sample, which clarifies the bright- and dark-side effects of status endowment. In another experiment, we consider how customers' perceptions of the value of the preferential treatment determine the occurrence of positive or negative customer reactions. We replicate these experimental findings in a field context by surveying customers with status endowment experience. Finally, we conclude with a discussion of the results, implications, limitations, and research avenues.

Study I: Customer Responses to Status Endowment in Hierarchical Loyalty Programs

To explore how customers respond to receiving a status endowment, in Study I we took a qualitative approach. Specifically, we investigated actual cases in which customers received endowed elevated status to explore customers' emotional, attitudinal, and behavioral responses, using open-ended survey questions. Subsequently, we focus on discussing the main characteristics of and insights from our qualitative study. For a more detailed description of our design and participants, procedures, and results, please consult Online Appendix A.

Approach

To recruit participants, we used Amazon's Mechanical Turk (MTurk), which has become a common source of participants in the social sciences (Paolacci, Chandler, and Ipeirotis 2010). In our sample of 81 usable responses, respondents had a mean age of 33.4 years and 36.7% were women. The status endowments mentioned spanned a variety of loyalty program industries (e.g., airlines, hotels, and retailing) and status endowment methods employed by companies (e.g., surprise without up-front notification, invitation to receive a higher status level, and offer on the company's website to sign up for a free status upgrade).

Participants were asked to describe their thoughts, emotions, and attitudes toward their endowed status. We reviewed the responses to the open-ended questions with a content analysis (Lombard, Snyder-Duch, and Campanella Bracken 2002) and contracted with two independent judges (i.e., graduate students trained in qualitative research methods) to perform iterative coding (Bitner, Booms, and Tetreault 1990) in order to ensure the analysis' intersubjectivity and reliability. Customer responses were coded in the following two consecutive steps: First, coders sorted the responses into two general emotion categories, positive and negative. Second, coders reread the statements in each category and assigned them to more specific positive and negative emotions. Interjudge agreement was 97% for Step 1 and 88% for Step 2 of our analysis. The few disagreements were resolved through discussion.

Table 1. Research Program Overview and Summary Findings.

	Study 1	Study 2	Study 3	Study 4
Purpose	Hypotheses generation	Hypotheses testing	Hypotheses testing	Hypotheses testing
Method	Content analysis of actual status endowments	Experiment	Experiment	Survey
Data and context	Wide range of loyalty program contexts	Hotel loyalty program scenario	Airline loyalty program scenario	Wide range of loyalty program contexts
Sample size	81 Adults	430 Adults	230 Adults	185 Adults
Hypothesized relationships				
Hypothesis 1: Positive effect of endowed status on customer gratitude		**	**	n.t.
Hypothesis 2: Positive effect of endowed status on customer attitudinal loyalty		**	*	n.t.
Hypothesis 3: Positive effect of endowed status on customer skepticism		**	**	n.t.
Hypothesis 4: Negative effect of endowed status on customer attitudinal loyalty		**	*	n.t.
Hypothesis 5: Negative effect of freedom of choice and proximity to status achievement on customer skepticism		**	n.t.	**
Hypothesis 6: Positive effect of freedom of choice and proximity to status achievement on customer attitudinal loyalty		**	n.t.	*
Hypothesis 7: Positive (negative) effect of customer value on customer gratitude (skepticism)		n.t.	**	**
Hypothesis 8: Positive effect of customer value on customer attitudinal loyalty		n.t.	**	**
Hypothesis 9: Moderation effect of elevated customer status on the relationship between customer value and customer gratitude (skepticism)		n.t.	†	n.t.

Note. n.t. = Hypothesized Relationship not Tested.

† $p < .10$. * $p < .05$. ** $p < .01$.

Discussion of Findings

The responses to status endowment varied in their valence and strength. From the response coding, we identified both positive and negative affect as the two main categories of reactions and several specific emotional themes. Where status endowment elicited positive responses, the dominant theme identified by the judges (i.e., generating the most mentions among all positive emotions) suggested that being endowed with elevated customer status made people feel grateful, thankful, and appreciative toward the company that provided this unexpected benevolence (Emmons and McCullough 2004). This gratitude fostered customers' commitment to the firm relationship too (Palmatier et al. 2009).

Yet, endowed status, awarded without people being entitled to it, also caused negative affect. Foremost, status endowment made the company's persuasive intent apparent to customers, which invoked their skepticism (Forehand and Grier 2003). The judges classified most negative utterances as expressions of skepticism. When such negative feelings prevailed, people expressed resistance (Knowles and Linn 2004), in the form of doubt, suspicion, and uncertainty about the company's actions as well as negative attitudes toward the company.

Our qualitative Study 1 thus provides exploratory insights into customers' likely emotional and attitudinal responses to status endowment. The two key constructs that emerged from our analysis in response to surprising, unexpected benevolence were customer gratitude and skepticism. Depending on consumers' positive or negative emotional disposition, their attitude was found to differ also, such that customers who appreciated the endowed status upgrade reported increased loyalty, but customers who felt skeptical about it likely expressed reduced attitudinal loyalty. In Study 2, we take a quantitative approach to investigating customer responses toward status endowment.

Study 2: Bright and Dark Sides of Status Endowment

In Study 2, we analyze the effectiveness of status endowment for increasing customer attitudinal loyalty, by taking both potential positive and negative psychological mechanisms into consideration. We compare being endowed with an elevated customer status against not receiving such status as well as with the regular achievement of the status. Furthermore, we investigate two design characteristics of status endowment offerings,

namely, customers' freedom of choice and proximity to status achievement.

Theoretical Background

The bright-side effect. Not only is “the allure of status . . . profound” (Henderson, Beck, and Palmatier 2011, p. 259), but status, defined as a person's position or rank within a defined hierarchy (Drèze and Nunes 2009), also drives human behavior (Frank 1985). According to social identity theory (Tajfel and Turner 1986), enhancing and maintaining favorable status is a core human concern. A positive status results from advantageous social comparisons with significant others; high self-esteem requires that one's own group appears positively distinct, or better, than a comparison group (Tajfel and Turner 1986). People prefer to belong to or associate with high-status groups to boost their self-image (Roccas 2003). Because people are lured by systems that promise them an opportunity to elevate their status, status is an effective marketing tool (Heffetz and Frank 2011).

Hierarchical loyalty programs exploit status as a loyalty-inducing mechanism. After being awarded elevated status in a hierarchical loyalty program, customers should appreciate their preferred position, according to social identity theory (Tajfel and Turner 1986), because they can make favorable social comparisons with others. Awarding elevated status to customers who exceed a predefined spending level enhances their loyalty and other beneficial relational outcomes, such as customer feedback (e.g., Drèze and Nunes 2011; Lacey, Suh, and Morgan 2007). Elevated customer status—whether achieved or endowed—thus might induce increased customer attitudinal loyalty. In particular, as suggested by our qualitative results from Study 1 and supported by a review of the literature (Palmatier et al. 2009), elevated status should create feelings of gratitude toward the company, because the award of elevated status signals the company's intentional benevolence. Furthermore, customers become members of the high-status group that makes them feel superior.

We predict no difference in customer gratitude for customers with endowed versus achieved elevated customer status, although the origin of this gratitude likely differs. For endowed status customers, the elevation represents an unsolicited, generous gift from the company. Achieved status customers instead have earned and are formally entitled to that status, according to the loyalty program's rules. Receiving discretionary benevolence tends to elicit more gratitude than a deserved reward (Morales 2005), though achieved status results from customers' own effort, and people tend to appreciate outcomes that require more effort to obtain (Zhang and Huang 2010). We hypothesize a positive effect of receiving enhanced status, without any predicted difference between endowed and achieved status:

Hypothesis 1: When customers receive endowed elevated customer status, customer gratitude is greater than in a situation in which no elevated customer status is awarded.

Feelings of gratitude should spur ingrained psychological pressures to exert reciprocity (Cialdini 2009; Palmatier et al. 2009). By awarding customers elevated status—whether achieved or endowed—the company invests and intentionally offers valuable benefits, signaling its appreciation for the customer relationship. Such generosity should enhance customers' desire to give something back, strengthening their positive attitude toward maintaining the relationship (Morales 2005). Thus,

Hypothesis 2: Endowed elevated customer status, compared with no elevated customer status, has a positive effect on customer attitudinal loyalty, mediated by customer gratitude.

The dark-side effect. In line with what surfaced in our exploratory Study 1 and became solidified in a literature review (Friestad and Wright 1994), endowed elevated customer status may elicit not only positive feelings but also skepticism. Attribution theory (Heider 1958; Weiner 1985) proposes that people search for causes of events and attribute events to either the self (i.e., internal attribution) or the environment (i.e., external attribution; Heider 1958). With an internal attribution, they regard themselves as causally responsible for an event, whereas an external attribution implies that the causes of the event are other people or situational circumstances. These causal attributions in turn determine affect and behavior (Weiner 1985).

Depending on whether status is endowed or achieved, a status elevation event likely triggers differential attributions. Status endowment prompts an external attribution, which might arouse negative emotional states such as skepticism (Friestad and Wright 1994; Nunes and Drèze 2006). Compared to a situation without a status elevation, being endowed with elevated status might not “feel right” to customers, because they did not reach the required spending level. Thus, they attribute their status elevation externally to the company. External attribution prompts people to make inferences about the intentionality of the external agent's actions (Morales 2005). Companies usually do not act on altruistic intentions, so customers might perceive an ulterior motive when they are endowed with elevated status (Cialdini 2009; Morales 2005). Specifically, they might interpret the status endowment as the firm's self-interested persuasion attempt to induce their loyalty (Campbell and Kirmani 2000).

They also might be more skeptical than consumers who achieve elevated customer status, because their attributions for the elevation differ. Achieved status customers can easily locate the reason for their status elevation internally, such as their past buying behavior. Whereas achieved status customers know that they are entitled to elevated status, endowed customers know they are not and might assume a persuasion motive by the company. We posit:

Hypothesis 3a/b: When customers receive endowed elevated customer status, customer skepticism is greater than in (a) a situation in which no elevated customer status is

awarded and (b) a situation in which achieved elevated customer status is awarded.

Consistent with the persuasion knowledge model (Friestad and Wright 1994), people who are aware of persuasive intentions might consciously seek to maintain their initial attitudes or behaviors (Morales 2005) or deliberately resist the persuasion attempt (Knowles and Linn 2004). As an attitudinal consequence of skepticism, resistance implies a negative response to the company (Kirmani 2011). Customers consciously try to avoid the reciprocation trap laid by the company (Cialdini 2009), so their skepticism about endowed status results in decreased attitudinal loyalty. Compared with both unelevated and achieved elevated customer status, endowed elevated customer status should negatively influence customers' attitudinal loyalty through skepticism:

Hypothesis 4a/b: Endowed elevated customer status, compared with (a) no elevated customer status and (b) achieved elevated customer status, has a negative effect on customer attitudinal loyalty, mediated by customer skepticism.

The role of freedom of choice. Designing a status endowment to give customers a sense of control over the endowment may decrease customer skepticism, according to attribution theory (Heider 1958; Weiner 1985). When customers have a choice to be endowed, their attribution for the status elevation shifts from solely external to partly internal. Because causal attributions invoke affect, attitude, and behavior, converting external to internal attribution, at least to some extent, should effectively enhance perceived eligibility and attenuate skepticism (Folkes 1988; Hansen and Donoghue 1977). Instead of informing customers ex post that they have been endowed with elevated status, companies might offer them the opportunity to be endowed, such as through a targeted promotion, about which they deliberately decide ex ante. Customers know what to expect and attribute responsibility for being endowed in part to themselves, with less skepticism toward the firm, which should increase their attitudinal loyalty:

Hypothesis 5a: When customers make the active choice to be awarded endowed elevated customer status, customer skepticism is lower than in a situation in which customers do not make this active choice.

Hypothesis 6a: Customers' freedom of choice has a positive effect on customer attitudinal loyalty, mediated by customer skepticism.

The role of proximity to status achievement. Selecting customers for status endowment when they already are proximate to the achievement of elevated status also may decrease skepticism. Customers who have reached a high level of progress toward elevated status perceive themselves as more suitable for status endowment than customers with a low progress level. Attributing the small remaining distance to their regular achievement

of elevated status can serve as a justification: They already are close to the outcome, through their own behavior, so they have some sense of control (Folkes 1988; Hansen and Donoghue 1977). Again, customers no longer attribute their status elevation exclusively externally but instead conclude that they have been chosen by the company on the basis of their own previous progress. Proximity in turn should enhance customers' perceptions of themselves as responsible—and thus eligible—for endowed status, which decreases their skepticism but increases their attitudinal loyalty. We hypothesize:

Hypothesis 5b: When customers are proximate to be awarded achieved elevated customer status, customer skepticism is lower than in a situation in which customers are farther from it.

Hypothesis 6b: Customers' proximity to status achievement has a positive effect on customer attitudinal loyalty, mediated by customer skepticism.

Figure 1 displays the conceptual models for the bright- and dark-side effects of status endowment (Panel A) and the potential dark side-alleviating effect of design characteristics (Panel B).

Experimental Study

Research design and participants. To investigate the bright- and dark-side effects of endowed status and examine how the two design characteristics might help companies alleviate the negative effects of endowed elevated customer status, we relied on a scenario approach, as is commonly used in marketing research (e.g., Garnefeld, Helm, and Eggert 2011; Wagner, Hennig-Thurau, and Rudolph 2009). This method asks participants to put themselves in hypothetical roles, which is well suited to our study context (Kwon and Weingart 2004). First, at this early stage of research into status endowment, we emphasize the internal validity of our results. Second, we hope to uncover the psychological processes that drive customer responses to status endowment, which would be difficult with behavioral customer data.

We employed a 2×2 between-subjects factorial design with two control groups, leading to six groups in total. Within our factorial design, we held endowed elevated customer status constant and manipulated the freedom of choice (active versus no active choice) and proximity to status achievement (high versus low). Of our two control groups, one experienced achieved elevated customer status while the other one did not experience elevated customer status. Thus, we could compare the effects of status endowment with status achievement and with no status elevation. We chose hotels as the study context as hierarchical loyalty programs are common in this service industry (Drèze and Nunes 2009).

For data collection, we applied a procedure similar to that adopted by Wagner, Hennig-Thurau, and Rudolph (2009). With the assistance of undergraduate marketing students from a German university, we recruited adult respondents, according to age and gender quotas. These solicited respondents then

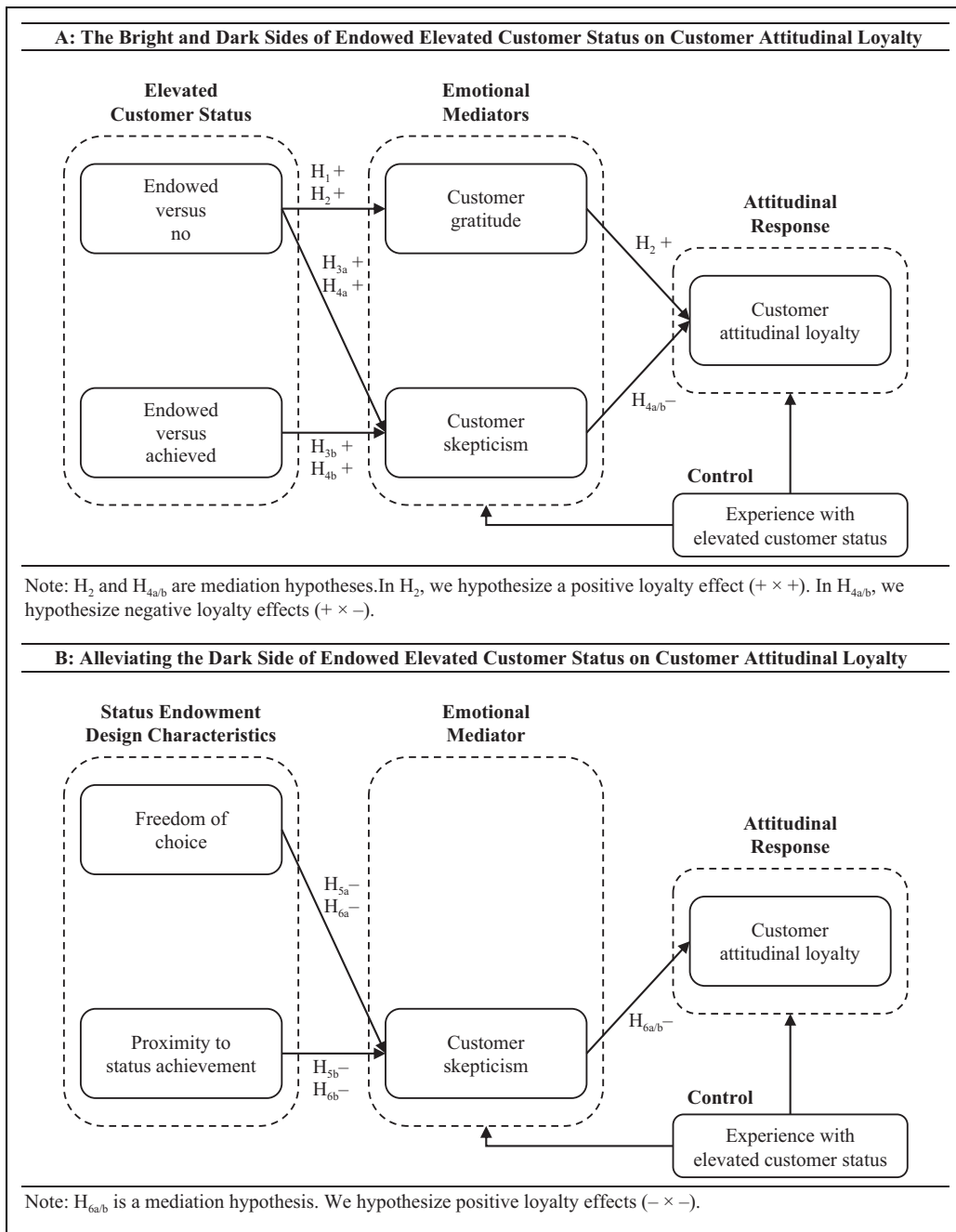


Figure 1. Conceptual Models, Study 2.

visited a webpage that contained the questionnaire. The 430 participants were randomly assigned to one of the six groups. Their mean age was 34.7 years, and 55.0% were women. Our assumptions that participants would be familiar with the hotel industry and hierarchical loyalty programs were supported. On average, respondents stayed 11.8 nights per year at a hotel for private or professional purposes. Annually, 94.4% of the respondents spent at least one night at a hotel. They subscribed to an average of 2.1 loyalty programs, and 66.9% of the respondents took part in at least one loyalty program. Furthermore, 27.1% of these held elevated customer status in at least one program.

Procedure. Each participant received a short scenario description and a questionnaire. The scenario description detailed the participant’s relationship with the fictitious hotel chain StayBest. All participants had spent several nights at StayBest hotels in the past and had always been satisfied. Furthermore, all participants imagined that they belonged to the hotel chain’s loyalty program and held its customer card StayBest BASIC. The next step illustrated the structure of the loyalty program to all participants. The hotel’s hierarchical loyalty program consisted of two tiers, StayBest BASIC and StayBest GOLD. In both tiers, program members received points for every stay at a StayBest hotel, which could be redeemed for free nights.

According to the rules, loyalty program members in the basic tier had to accumulate at least 12 nights at the hotel within 12 months to be elevated to the gold tier. Being awarded the StayBest GOLD card came with exclusive benefits (e.g., automatic room upgrades, free Wi-Fi access, and access to VIP lounges) not available to holders of StayBest BASIC or noncardholders.

To manipulate status endowment design characteristics, participants in the four treatment groups were told to imagine that they received an email from StayBest, which stated that participants were awarded the customer card StayBest GOLD as an exclusive gift. We varied the way this status endowment was presented, to account for different designs. To manipulate customers' freedom of choice, we presented different courses of action for status endowment. The active choice groups were informed in an email that they had an exclusive chance to be awarded a StayBest GOLD customer card if they booked one night at a StayBest hotel in the next 2 weeks. In the subsequent description, participants were told that they had decided to book one night and that, a few days later, their new StayBest GOLD customer card was delivered to them, with the exclusive benefits immediately available. In the no active choice groups, participants instead were told that they were awarded the StayBest GOLD customer card as an exclusive gift, without being asked. The email contained the same image and list of exclusive benefits, and these participants learned that they received their new customer card in the mail and could start using their exclusive benefits.

To manipulate customers' proximity to status achievement, we informed them about their bookings at the hotel chain during the last 12 months. In the high-proximity groups, participants had accumulated 10 nights at StayBest hotels. According to the loyalty program's rules, as given in the scenario introduction, 12 nights within 12 months were required to be awarded the StayBest GOLD card. For the low-proximity groups, the description stated that participants had spent only 2 nights at StayBest hotels and were missing 10 nights needed to achieve gold status. Across the four treatment groups, we did not offer any specific reason for the status endowment.

In the achieved elevated status control group, participants were also told that they received an email from StayBest to let them know that they received the StayBest GOLD card because they had accumulated 12 stays in the last 12 months and fulfilled the rules. Similarly, participants were informed that they received their new StayBest GOLD card a few days later in the mail and could use the exclusive benefits. Finally, for the unelevated status control group, the email informed participants that they had stayed 2 nights at StayBest hotels within the last 12 months and that, as usual, their customer card StayBest BASIC was renewed annually. We provide the introductory scenario and all manipulations in Online Appendix B.

After reading the scenarios, all participants indicated their gratitude, skepticism, and attitudinal loyalty toward StayBest. Furthermore, the questionnaire contained manipulation and realism checks. Finally, respondents evaluated their personal experience with both hotels and (hierarchical) loyalty programs and indicated their age and gender.

Measures. We used established multi-item scales to measure customer gratitude (Palmatier et al. 2009), customer skepticism (Babin, Boles, and Darden 1995), and customer attitudinal loyalty (De Wulf, Odekerken-Schröder, and Iacobucci 2001), modified to fit the study context (see Table 2). As a control variable, we included each respondent's personal experience with elevated customer status (i.e., holding elevated customer status in at least one program) in the model.

Manipulation and realism checks. The manipulation check results supported the effectiveness of our manipulations. First, we compared the endowed status treatment groups with our two control groups. To test our elevated customer status manipulation, we asked participants whether they received the StayBest GOLD card (1 = *strongly disagree* to 7 = *strongly agree*; $M_{\text{Endowed} + \text{Achieved}} = 6.37$, $SD = 1.49$; $M_{\text{No}} = 1.74$, $SD = 1.54$; $t = 24.52$, $p = .00$). To distinguish endowed from achieved status, respondents in the endowed and achieved status groups also stated whether they were awarded elevated customer status because of the number of nights they had stayed at StayBest ($M_{\text{Endowed}} = 3.17$, $SD = 2.20$; $M_{\text{Achieved}} = 6.43$, $SD = 1.40$; $t = 15.37$, $p = .00$). Second, the manipulations of status endowment design characteristics worked as intended. In the freedom of choice manipulation, participants indicated whether it was their own choice to be awarded the new customer card ($M_{\text{Active}} = 5.72$, $SD = 2.21$; $M_{\text{No Active}} = 2.03$, $SD = 1.82$; $t = 15.40$, $p = .00$). For the proximity to status achievement manipulation, participants rated whether they were close to achieving the new customer card ($M_{\text{High}} = 6.18$, $SD = 1.55$; $M_{\text{Low}} = 2.18$, $SD = 1.94$; $t = 19.30$, $p = .00$). The realism checks also indicated sufficient realism in the scenarios and confirmed that respondents put themselves in the described situation ($M = 5.35$, $SD = 1.51$; 1 = *strongly disagree* to 7 = *strongly agree*).

Validity assessment. We assessed the convergent and discriminant validity of customer gratitude, customer skepticism, and customer attitudinal loyalty using AMOS 22.0. The scales exhibited convergent validity, according to the factor loadings, Cronbach's α , composite reliability, and average variance extracted values, which exceeded the common thresholds (see Table 2). To test for discriminant validity, we applied Fornell and Larcker's (1981) criterion.

Results: Bright- and dark-side effects. First, we tested the hypothesized positive and negative effects of status endowment on attitudinal loyalty. Second, we analyzed how the different design characteristics (freedom of choice and proximity to status achievement) influenced the effectiveness of status endowment. We checked for significant direct effects of endowed (versus no) elevated customer status on customer gratitude (test of Hypothesis 1) and of endowed (versus no and achieved) elevated customer status on customer skepticism (test of Hypothesis 3a/b), employing two one-way multivariate analyses of variance (MANOVAs). We pooled the four groups of our 2 \times 2 design into one status endowment treatment group and

Table 2. Construct Measures and Validity Assessment (Studies 2–4).

Construct	Items ^a	Factor Loading ^b	M (SD) ^b	Cronbach's α	CR ^b	AVE ^{bc}	Construct Correlations ^b			
							CG	CS	CAL	CVP
Customer gratitude (CG)	I cherish what (Company) does for me with their customer card.	.93	4.28 (1.64)	.96	.96	.85 (.92)	N.A.	-.23	.63	N.A.
	I feel appreciative for what (Company) does for me with their customer card.	.88	5.04 (1.62)	.96	.96	.86 (.93)	N.A.	-.37	.85	N.A.
	I feel grateful to (Company) for their customer card.	.82		.95	.95	.83 (.91)	N.A.	-.66	.77	.73
	I feel thankful to (Company) for their customer card.	.93								
		.90								
Customer skepticism (CS)	Receiving the new customer card StayBest/SkyStar GOLD/BASIC (the unearned status upgrade) from (Company) makes me feel ... skeptical.	.93	3.74 (1.89)	.90	.91	.77 (.88)	-.23	N.A.	-.26	N.A.
	suspicious.	.90	2.84 (1.56)	.93	.93	.82 (.90)	-.37	N.A.	-.43	N.A.
	distrustful.	.93	2.67 (1.74)	.95	.95	.87 (.93)	-.66	N.A.	-.62	-.60
		.97								
		.96								
Customer attitudinal loyalty (CAL)	I am willing "to go the extra mile" to do business with (Company).	.97								
	I have a desire to maintain the relationship with (Company).	.90	5.05 (1.40)	.92	.93	.76 (.87)	.63	-.26	N.A.	N.A.
	I am committed to my relationship with (Company).	.88	5.27 (1.43)	.96	.96	.85 (.92)	.85	-.43	N.A.	N.A.
	My relationship with (Company) is worth my effort to maintain.	.92	4.94 (1.49)	.94	.94	.80 (.89)	.77	-.62	N.A.	.60
		.94								
Customer value perceptions (CVP) ^d	The unearned status upgrade helps me save money	.93								
	The unearned status upgrade is valuable to me	.95								
	The unearned status upgrade is a "good deal" for me	.93	5.39 (1.60)	.95	.95	.84 (.92)	.73	-.60	.60	N.A.
	The unearned status upgrade provides me value	.81								
		.96								

Note. M = mean, SD = standard deviation, CR = Composite Reliability, AVE = Average Variance Extracted, N.A. = Not Applicable.

^aItems were measured on a 7-point Likert-type scale ranging from 1 = strongly disagree to 7 = strongly agree. ^bThe number/numbers in the first/second/third line refer/refers to Study 2/Study 3/Study 4 (except for customer value perceptions). ^cNumbers in parentheses denote $\sqrt{\text{AVE}}$. ^dStudy 4 only.

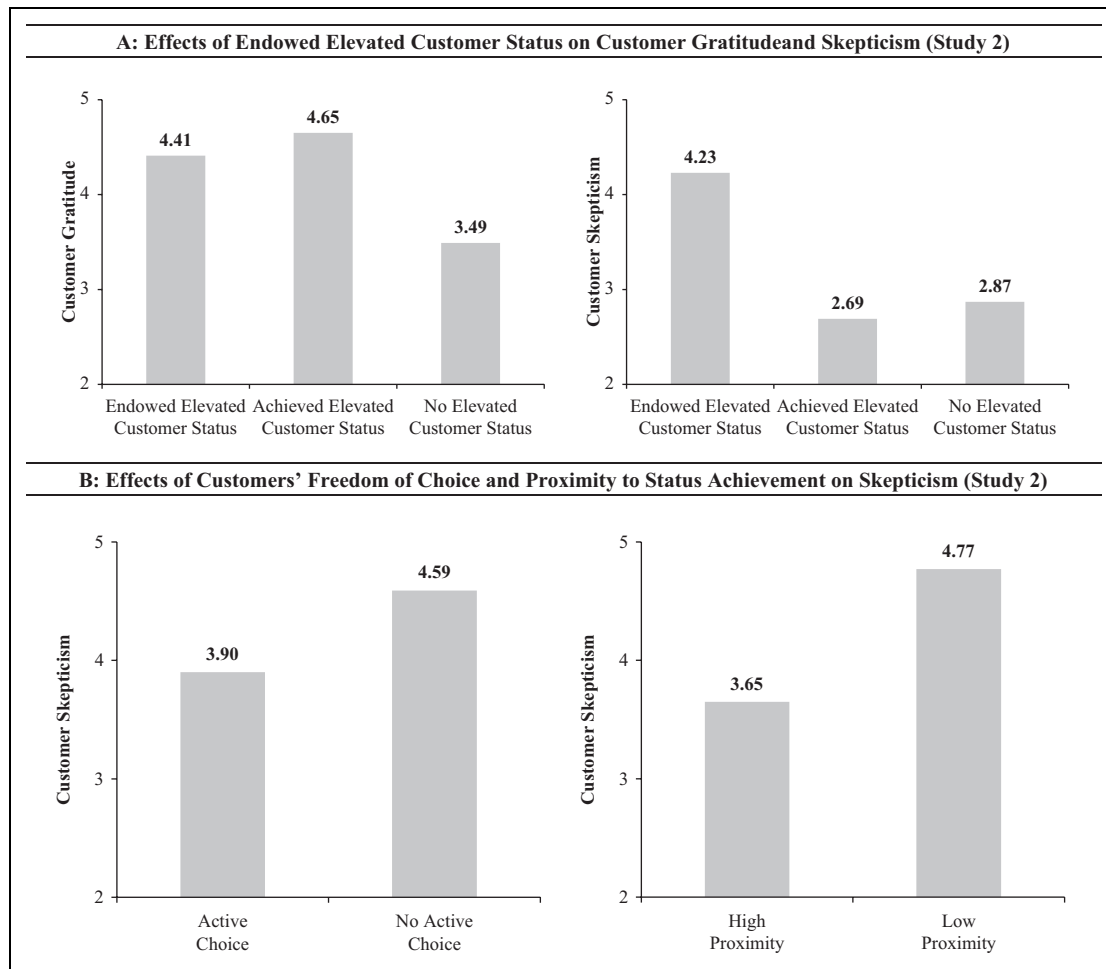


Figure 2. Multivariate Analyses of Variance (MANOVA) Results (Studies 2 and 3).

compared it against the two control groups. A comparison of the mean values of customer gratitude and customer skepticism for the three groups appears in Panel A of Figure 2. Consistent with Hypothesis 1, customer gratitude was significantly higher for the endowed elevated status treatment group than for the control group with no elevated status ($M_{\text{Endowed}} = 4.41$, $SD = 1.69$; $M_{\text{No}} = 3.49$, $SD = 1.51$; $F = 18.30$, $p = .00$). Also as we anticipated, endowed and achieved elevated status did not differ significantly in their customer gratitude ($M_{\text{Endowed}} = 4.41$, $SD = 1.69$; $M_{\text{Achieved}} = 4.65$, $SD = 1.31$; $F = 1.31$, $p = .13$). Customer skepticism was significantly higher for the endowed elevated status group than for the no elevated status group ($M_{\text{Endowed}} = 4.23$, $SD = 1.79$; $M_{\text{No}} = 2.87$, $SD = 1.88$; $F = 33.83$, $p = .00$), in support of Hypothesis 3a. The comparison of the endowed and achieved elevated customer status groups also showed that customer skepticism was significantly higher for the former ($M_{\text{Endowed}} = 4.23$, $SD = 1.79$; $M_{\text{Achieved}} = 2.69$, $SD = 1.53$; $F = 43.99$, $p = .00$), in line with Hypothesis 3b.

Next, we checked for the mediating effects of customer gratitude and customer skepticism on the endowed elevated customer status–customer attitudinal loyalty link (tests of Hypothesis 2 and 4a/b). In line with the suggestions of Bagozzi, Yi, and Singh (1991) and Iacobucci and Duhachek

(2004), to analyze experimental data with mediators, we employed partial least squares (PLS) structural equation modeling (Ringle, Wende, and Will 2005; for an application, see Daryanto, de Ruyter, and Wetzels 2010; Wagner, Hennig-Thurau, and Rudolph 2009). The structural equation model included three groups (Henseler and Fassott 2010). We used dummification, transforming the $\gamma = 3$ categories of our independent variable into distinct binary variables. This dichotomization required that we choose one category as the reference. In line with our hypotheses, we chose endowed elevated customer status, so that we could compare it with no and with achieved elevated customer status. Dummification is the most widely used coding scheme to analyze categorical independent variables (Henseler and Fassott 2010).

The path coefficients in Table 3 show that the path between endowed (versus no) elevated customer status and customer gratitude was significant ($\beta = .22$, $p = .00$), as was the path coefficient for the relationship between customer gratitude and customer attitudinal loyalty ($\beta = .55$, $p = .00$). Table 4 confirms the significance of the indirect effect ($\beta = .12$, $p = .00$) in support of Hypothesis 2. The path between endowed (versus no) elevated customer status and customer skepticism was significant ($\beta = .27$, $p = .00$). The path coefficient for the

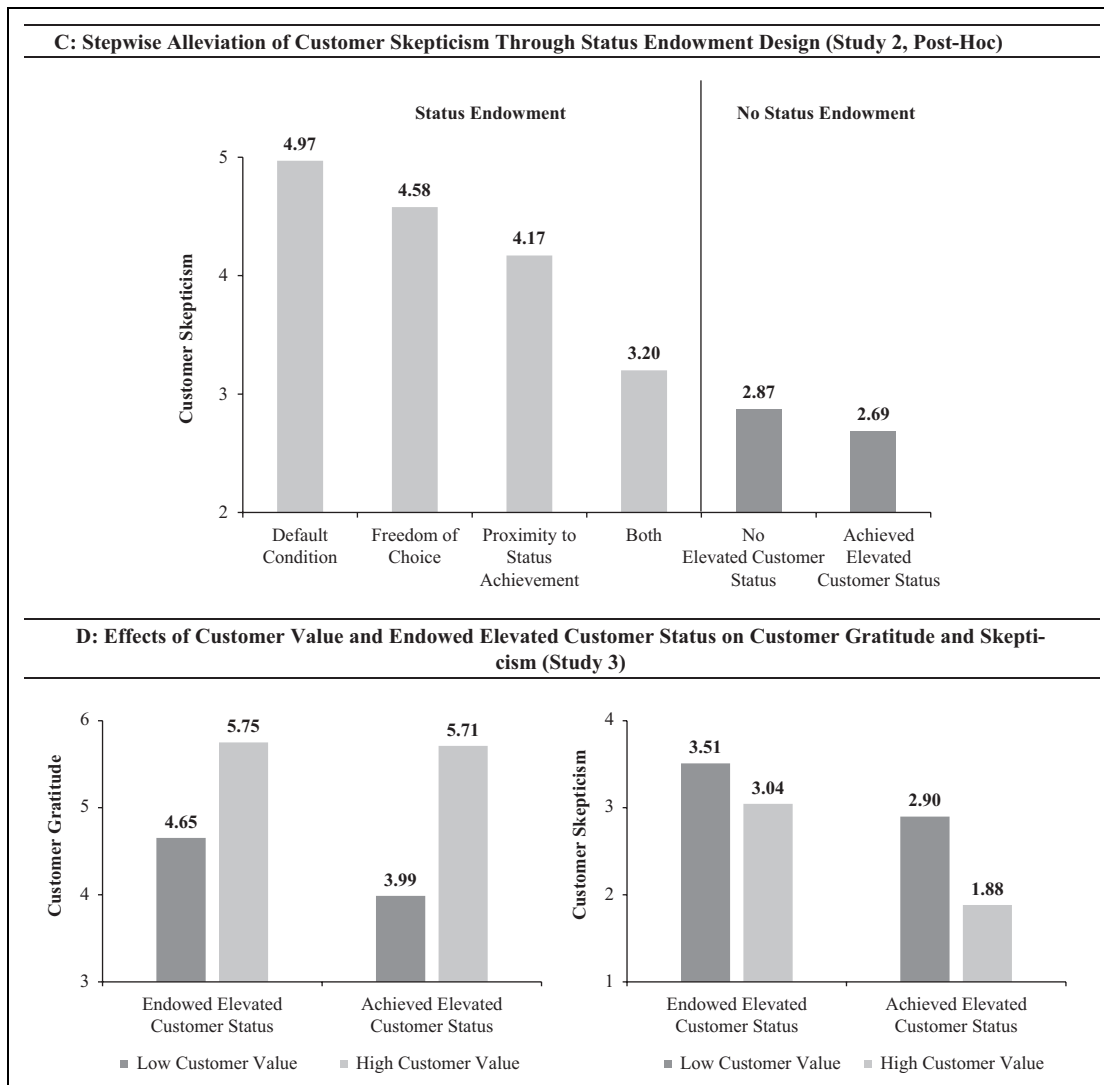


Figure 2. (Continued) Multivariate analyses of variance (MANOVA) results (Studies 2 and 3).

relationship between customer skepticism and customer attitudinal loyalty was significant as well ($\beta = -.15, p = .00$). Beyond that, the indirect effect was significant ($\beta = -.04, p = .00$), in support of Hypothesis 4a. We found significant paths between endowed (versus achieved) elevated customer status and customer skepticism ($\beta = .30, p = .00$) and between customer skepticism and customer attitudinal loyalty ($\beta = -.15, p = .00$). In line with Hypothesis 4b, the indirect effect was significant ($\beta = -.04, p = .00$).

Results: Design characteristics. We checked the hypothesized direct effects of customers' freedom of choice and proximity to status achievement on customer skepticism (test of Hypothesis 5a/b), using a two-way MANOVA with our 2×2 design. The mean values are in Figure 2, Panel B. In line with Hypothesis 5a, the direct negative effect of freedom of choice on customer skepticism was significant ($M_{Active} = 3.90, SD = 1.91$; $M_{No Active} = 4.59, SD = 1.58$; $F = 11.88, p = .00$). Customer skepticism was significantly lower for customers who made the

active choice to be endowed with elevated customer status than for customers with no active choice. In support of Hypothesis 5b, the direct effect of proximity to status achievement also was significant ($M_{High} = 3.65, SD = 1.71$; $M_{Low} = 4.77, SD = 1.70$; $F = 30.32, p = .00$); customers with high proximity exhibited lower skepticism than customers with low proximity. No interaction emerged between the two design characteristics ($F = 2.13, p = .07$). In addition to the hypothesized relationships, we checked for the potential effects of the design characteristics on customer gratitude. Neither freedom of choice ($M_{Active} = 4.35, SD = 1.70$; $M_{No Active} = 4.47, SD = 1.68$; $F = .30, p = .29$) nor proximity to status achievement ($M_{High} = 4.55, SD = 1.68$; $M_{Low} = 4.27, SD = 1.69$; $F = 1.89, p = .09$) exhibited significant effects on customer gratitude, nor did their interaction ($F = 1.88, p = .09$).

Applying PLS analysis, we tested for a mediating effect of customer skepticism on the link between freedom of choice and proximity to status achievement on customer attitudinal loyalty (test of Hypothesis 6a/b; see Tables 3 and 4). The path

Table 3. PLS Analysis Results (Studies 2–4).

Determinant	Path Coefficient	t-Value	R ²
Effects on customer gratitude			
Study 2—Model 1			
Endowed versus no elevated customer status	.22**	4.82	.06
Experience with elevated customer status (control)	.09 [†]	1.61	
Study 3			
Customer value perceptions	.43**	8.76	.21
Customer value perceptions × elevated customer status	-.09 [†]	-1.56	
Experience with elevated customer status (control)	.05	0.80	
Study 4			
Customer value perceptions	.70**	11.64	.49
Effects on customer skepticism			
Study 2—Model 1			
Endowed versus no elevated customer status	.27**	5.12	.13
Endowed versus achieved elevated customer status	.30**	6.86	
Experience with elevated customer status (control)	-.02	-0.36	
Study 2—Model 2			
Freedom of choice	-.19**	-3.66	.13
Proximity to status achievement	-.30**	-5.76	
Experience with elevated customer status (control)	-.05	-0.65	
Study 3			
Endowed versus achieved elevated customer status	.27**	4.60	.15
Customer value perceptions	-.24**	-3.96	
Customer value perceptions × elevated customer status	.08 [†]	1.40	
Experience with elevated customer status (control)	-.10*	-1.82	
Study 4			
Freedom of choice	-.09*	-1.65	.37
Proximity to status achievement	-.17**	-2.45	
Customer value perceptions	-.52**	-7.48	
Effects on customer attitudinal loyalty			
Study 2—Model 1			
Endowed versus no elevated customer status	.07 [†]	1.58	.39
Endowed versus achieved elevated customer status	-.05	-1.17	
Customer gratitude	.55**	13.52	
Customer skepticism	-.15**	-3.48	
Experience with elevated customer status (control)	.04	0.91	
Study 2—Model 2			
Freedom of choice	-.04	-0.77	.09
Proximity to status achievement	.10 [†]	1.62	
Customer skepticism	-.26**	-4.24	
Experience with elevated customer status (control)	.05	0.74	
Study 3			
Endowed versus achieved elevated customer status	.01	0.22	.70
Customer value perceptions	.09*	2.00	
Customer gratitude	.73**	16.47	
Customer skepticism	-.12*	-2.19	
Experience with elevated customer status (control)	.06*	1.70	
Study 4			
Freedom of choice	-.03	-0.66	.57
Proximity to status achievement	.07 [†]	1.39	
Customer value perceptions	.07	0.84	
Customer gratitude	.55**	6.73	
Customer skepticism	-.19**	-2.60	
Effect on customer incremental share of wallet			
Study 4			
Customer attitudinal loyalty	.21**	2.56	.04

Note. Path coefficients represent standardized estimates.

[†] $p < .10$. * $p < .05$. ** $p < .01$.

Table 4. Indirect Effects on Customer Attitudinal Loyalty (Studies 2–4).

Indirect Effects	Coefficients	t-Value
Effects via customer gratitude		
Study 2—Model 1		
Endowed versus no elevated customer status → customer gratitude → customer attitudinal loyalty	.12**	4.62
Study 3		
Customer value perceptions → customer gratitude → customer attitudinal loyalty	.32**	7.48
Study 4		
Customer value perceptions → customer gratitude → customer attitudinal loyalty	.39**	6.22
Effects via customer skepticism		
Study 2—Model 1		
Endowed versus no elevated customer status → customer skepticism → customer attitudinal loyalty	-.04**	-2.98
Endowed versus achieved elevated customer status → customer skepticism → customer attitudinal loyalty	-.04**	-3.17
Study 2—Model 2		
Freedom of choice → customer skepticism → customer attitudinal loyalty	.05**	2.68
Proximity to status achievement → customer skepticism → customer attitudinal loyalty	.08**	3.10
Study 3		
Endowed versus achieved elevated customer status → customer skepticism → customer attitudinal loyalty	-.03*	-1.88
Customer value perceptions → customer skepticism → customer attitudinal loyalty	.03*	1.98
Study 4		
Freedom of choice → customer skepticism → customer attitudinal loyalty	.02 [†]	1.42
Proximity to status achievement → customer skepticism → customer attitudinal loyalty	.03*	1.74
Customer value perceptions → customer skepticism → customer attitudinal loyalty	.10**	2.51

Note. Coefficients represent standardized estimates.

[†] $p < .10$. * $p < .05$. ** $p < .01$.

coefficients, between freedom of choice and customer skepticism ($\beta = -.19, p = .00$) and customer skepticism and customer attitudinal loyalty ($\beta = -.26, p = .00$), were significant. The significance of the indirect effect was supported ($\beta = .05, p = .00$), consistent with Hypothesis 6a. Significant path coefficients also appeared between proximity to status achievement and customer skepticism ($\beta = -.30, p = .00$) and between customer skepticism and customer attitudinal loyalty ($\beta = -.26, p = .00$). In support of Hypothesis 6b, the significant indirect effect was confirmed ($\beta = .08, p = .00$).

Post hoc analysis. To gain additional insight into the use of design characteristics, we compared the status endowment designs (no active choice and low proximity, active choice, high proximity, and active choice and high proximity) in a post hoc analysis. Panel C of Figure 2 displays the evolution of skepticism mean values across conditions. In the default condition (i.e., no active choice and low proximity), customer skepticism was significantly higher for the endowed than for no ($F = 54.04, p = .00$) and achieved ($F = 77.20, p = .00$) elevated customer status. Although customers' freedom of choice effectively diminished skepticism toward status endowment, customers still exhibited more skepticism, compared with when they received no ($F = 32.30, p = .00$) or achieved ($F = 45.80, p = .00$) elevated customer status. Similarly, customers' proximity to status achievement reduced skepticism, but it elicited more skepticism in endowed customers than among unelevated customers ($F = 20.06, p = .00$) or those who achieved their elevated customer status ($F = 32.17, p = .00$).

Only by using both design characteristics can companies completely remove skepticism, compared to no elevated customer status ($F = 1.20, p = .14$), and approach the skepticism level associated with achieved status ($F = 3.40, p = .03$), although a significant difference remains. These findings reinforce our confidence in the nomological validity of our conceptual model; skepticism represents an important customer response to being awarded endowed elevated customer status.

Discussion of findings. The results of Study 2 identify bright and dark sides of endowed elevated customer status on customer attitudinal loyalty. Through customer gratitude, endowed status increases customer attitudinal loyalty, and through customer skepticism, it decreases customer attitudinal loyalty. Compared with achieved elevated status, endowed elevated status shares the bright-side effect, but it also evokes a unique dark-side effect. Yet, two design characteristics effectively alleviate the dark side of status endowment by reducing customer skepticism.

In addition, it is possible that responses toward status endowment might be influenced by customers' value perceptions of the elevated customer status itself. In fact, prior research finds the value of a reward to be an important design characteristic of loyalty programs (Daryanto, de Ruyter, and Wetzels 2010; Roehm and Roehm Jr. 2011). The value provided to customers when receiving either endowed or achieved elevated customer status in hierarchical loyalty programs should affect customer responses. Thus, we devote Study 3 to the role of customer value perceptions for their reactions toward receiving elevated status.

Study 3: The Role of Customer Value for Status Endowment

In this study, we take a closer look at the role of customers' perceptions of the value of the preferential treatment, as another key characteristic of hierarchical loyalty programs.

Theoretical Background

Customer value perceptions. According to social exchange theory (Thibaut and Kelley 1959), customers seek value in their relationship to a company. If they perceive that their benefits exceed their costs, they derive net utility or value from it (Zeithaml 1988). Positive perceived value then should prompt positive customer responses, through two routes. First, the greater value of elevated customer status should increase customer gratitude. Elevated status typically features benefits that are not available to all customers (Hennig-Thurau, Gwinner, and Gremler 2002), and such monetary and nonmonetary advantages should induce greater feelings of gratefulness, which in turn should raise customers' commitment to their relationship with the company. Second, perceiving value in their elevated customer status may decrease customer skepticism. More value implies that companies are investing more in their customer relationships and taking those relationships seriously. The company demonstrates that it really wants to provide the customer with more advantages and better treatment, through the status elevation, rather than just pretending to appreciate the customer's business by giving out less valuable benefits. Because these signals should diminish customers' skepticism, their resistance might decline (Kirmani 2011), triggering higher commitment to the company. We thus propose a positive effect of customer value on customers' attitudinal loyalty, through an increase in gratitude and a decrease in skepticism:

Hypothesis 7a/b: When elevated customer status invokes high customer value perceptions, (a) customer gratitude is higher and (b) customer skepticism is lower than in a situation in which it invokes low customer value perceptions.

Hypothesis 8a/b: Customer value perceptions have positive effects on customer attitudinal loyalty, mediated by (a) customer gratitude and (b) customer skepticism.

Interplay of customer value perceptions and elevated customer status. In Study 2, we showed that endowed and achieved elevated customer status elicited different customer reactions. The way the customer status elevation takes place—through endowment or achievement—also might interact with the customer's perception of the value of that status elevation. In particular, reverting to our theoretical arguments from Study 2, we predict that the relationship between customer value perceptions and customer gratitude is weaker in the case of endowed status. Irrespective of the value of the elevated status, it represents a surprising gift from the company. Knowing that they do not deserve this higher status, customers likely express more

gratitude if they perceive high value in this status, but not much more than they would if granted a low-value status upgrade. In contrast, customers who achieve their elevated status have put conscious effort into reaching the necessary level. If the elevated customer status promised greater value, customers feel grateful and consider the exchange evidence of the company's fair appraisal of the customer relationship (Palmatier et al. 2009). If the value is low, these customers instead feel bilked of their own relationship investment. Receiving a low-value reward signals low appreciation by the company, and thus, customers' gratitude should drop considerably compared with that expressed in response to high-value rewards.

In line with attribution theory (Heider 1958; Weiner 1985), the relationship between customer value and customer skepticism should be less pronounced when status is endowed. Endowed status customers are skeptical in general, because they attribute their elevated customer status to the company and presume the company's self-interest is the reason for their status elevation (Forehand and Grier 2003). If the endowed status also offers low value, it prompts great skepticism; a higher value should reduce this skepticism only slightly. In status achievement cases, customers instead attribute their status elevation to their own behavior, so skepticism becomes an issue only if the value of the achieved status seems low. In this case, the company may seem to be trying to take advantage of customers or pacify them with inadequate benefits in return for their patronage. Thus, skepticism should vary largely according to whether achieved status customers perceive low or high customer value. We hypothesize:

Hypothesis 9a/b: Elevated customer status moderates the impact of customer value perceptions on (a) customer gratitude and (b) customer skepticism.

Experimental Study

Research design and participants. We used a scenario experiment to assess the role of customer value perceptions for status endowment. In the 2×2 between-subjects factorial design, we manipulated customer value (high versus low) and elevated customer status (endowed versus achieved). As our study context, we chose a hierarchical loyalty program at a fictitious airline (Drèze and Nunes 2009). The data collection took place online using MTurk. Overall, 230 participants took part and were randomly assigned to one of the four groups. Participants' average age was 37.0 years, and 55.7% were women. We checked for their familiarity with airlines and loyalty programs. They flew on average 5.3 times per year, and 91.7% took at least one flight annually. With a mean of 4.4 subscriptions, 84.3% of the respondents participated in at least one loyalty program, and 63.9% of them held elevated customer status in at least one program.

Procedure. Participants received a short scenario and questionnaire, which paralleled our approach in Study 2, except that the introductory section referred to a fictitious airline SkyStar and

described the two-tier structure as requiring 12 flights in 12 months to be elevated from the BASIC tier to the GOLD tier.

To manipulate customer value, we provided participants with information about the three additional benefits they received with the SkyStar GOLD card. To ensure the perceived value manipulation was realistic, we conducted a prestudy with 115 MTurk respondents who did not participate in the main study. Analyzing unaided and aided responses, we identified three high-value (free ticket upgrades when available, free checked bag, and free on-flight Wi-Fi) and three low-value (access to a free customer hotline, free branded airline luggage tag, and free newspaper) offerings. For a full description, see Online Appendix C. Finally, we asked the participants to indicate their gratitude, skepticism, and attitudinal loyalty toward SkyStar. We included the manipulation and realism checks; respondents rated their personal experience with airlines and hierarchical loyalty programs and stated their age and gender.

Measures. We used the same scales to measure customer gratitude (Palmatier et al. 2009), customer skepticism (Babin, Boles, and Darden 1995), and customer attitudinal loyalty (De Wulf, Odekerken-Schröder, and Iacobucci 2001) as in Study 2 (see Table 2). Respondents' experience with elevated customer status was included as a control variable.

Manipulation and realism checks. Our manipulations worked as intended (elevated customer status: $M_{\text{Endowed}} = 2.56$, $SD = 1.86$; $M_{\text{Achieved}} = 6.49$, $SD = .92$; $t = 20.40$, $p = .00$; customer value: $M_{\text{High}} = 6.18$, $SD = .93$; $M_{\text{Low}} = 4.12$, $SD = 1.96$; $t = 10.13$, $p = .00$). The realism evaluations also suggested that our scenarios were perceived as realistic ($M = 5.85$, $SD = 1.25$).

Validity assessment. We conducted a confirmatory factor analysis for customer gratitude, customer skepticism, and customer attitudinal loyalty. The factor loadings, Cronbach's α , composite reliability, and average variance extracted all supported convergent validity (see Table 2) and exceeded their respective thresholds. Our test of Fornell and Larcker's (1981) criterion also supported discriminant validity.

Results. To examine the direct and interaction effects of elevated customer status and customer value on customer gratitude and skepticism (replication test of Hypothesis 3b; tests of Hypothesis 7a/b and 9a/b), we employed a two-way MANOVA. For endowed (versus achieved) elevated customer status, we replicated the findings for Hypothesis 3b, because customer skepticism was significantly higher among customers with endowed, rather than achieved, status ($M_{\text{Endowed}} = 3.27$, $SD = 1.65$; $M_{\text{Achieved}} = 2.39$, $SD = 1.32$; $F = 21.42$, $p = .00$). Customer gratitude was higher toward status endowment than toward status achievement ($M_{\text{Endowed}} = 5.22$, $SD = 1.47$; $M_{\text{Achieved}} = 4.86$, $SD = 1.76$; $F = 3.40$, $p = .03$). In support of Hypothesis 7a and Hypothesis 7b, customer value exerted a significant, positive effect on customer gratitude ($M_{\text{High}} = 5.73$, $SD = 1.04$; $M_{\text{Low}} = 4.32$, $SD = 1.80$; $F = 54.17$, $p = .00$) and a significant, negative effect on customer skepticism

($M_{\text{High}} = 2.48$, $SD = 1.51$; $M_{\text{Low}} = 3.21$, $SD = 1.52$; $F = 14.96$, $p = .00$). Thus, customers who perceived high value in the status elevation were more grateful and less skeptical than customers who perceived lower value. In marginal support of Hypothesis 9a and Hypothesis 9b, we found a marginally significant interaction effect of elevated customer status and customer value on customer gratitude ($F = 2.68$, $p = .05$) and customer skepticism ($F = 2.08$, $p = .08$; see Figure 2, Panel D). The effect of value on gratitude and skepticism was stronger for customers who achieved their status (gratitude: $M_{\text{High}} = 5.71$, $SD = 1.08$; $M_{\text{Low}} = 3.99$, $SD = 1.90$; $F = 35.44$, $p = .00$; skepticism: $M_{\text{High}} = 1.88$, $SD = .82$; $M_{\text{Low}} = 2.90$, $SD = 1.53$; $F = 19.40$, $p = .00$), but endowed customers still experienced more gratitude and lower skepticism when they perceived the value of the preferential treatment as high (gratitude: $M_{\text{High}} = 5.75$, $SD = 1.01$; $M_{\text{Low}} = 4.65$, $SD = 1.66$; $F = 18.90$, $p = .00$; skepticism: $M_{\text{High}} = 3.04$, $SD = 1.79$; $M_{\text{Low}} = 3.51$, $SD = 1.47$; $F = 2.35$, $p = .06$). To test our mediation hypotheses (replication test of Hypothesis 4b; test of Hypothesis 8a/b) and check the interactions using a different methodology (test of Hypothesis 9a/b), we applied the PLS analysis. The path coefficients and indirect effects in Tables 3 and 4 indicate results consistent with our hypotheses and our previous findings.

Discussion of findings. Study 3 yields insights about the role of customer value for elevated status customers. For both endowed and achieved status customers, perceptions about the value of the preferential treatment accompanying status elevation exert a positive impact on gratitude and a negative impact on skepticism. Through these mechanisms, by providing high value to customers, companies can effectively increase customers' attitudinal loyalty.

Integrating our findings on design characteristics of status endowment and the hierarchical loyalty program from our experimental Studies 2 and 3, Study 4 seeks to establish and replicate the effects with a sample of consumers having experienced status endowment in the marketplace.

Study 4: Customer Perceptions of Status Endowment

In Studies 2 and 3, we used the scenario technique to test our hypotheses experimentally. In Study 4, as further support for the generalizability of our established effects, we surveyed consumers who had experienced some status endowment in a hierarchical loyalty program. By replicating our experimental findings in a field setting, we help confirm the external validity of our conceptual model. In addition, we test whether attitudinal loyalty prompts behavioral consequences, leading to a higher reported share of wallet for the company.

Survey

Research design, participants, and procedure. To analyze the effects of status endowment in real-life hierarchical loyalty programs, we conducted a survey of consumers who had

actually experienced status endowments. Customers reported in which loyalty program, when, and how they received their endowed elevated status. We verified the information and excluded cases containing invalid responses. By recruiting participants through MTurk, we obtained a sample of 185 usable responses. Participants' mean age was 32.7 years, and 46.5% were women. On average, these respondents subscribed to 6.7 loyalty programs and held elevated customer status in 2.6 of them. The loyalty programs that endowed them with status represented a variety of industries, with specialty retail, hotels, and airlines among the top mentioned. Participants also indicated that they received the elevated status by surprise (45.9%), were invited to receive a status upgrade by the company (20%), came across an offer on the company's website (19.5%), proactively asked for a free status upgrade (5.9%), or had other experiences with status endowments (8.6%). On average, customers were close to achieving the status upgrade on their own (5.18 on a 7-point scale, asking respondents to rate whether they were good customers of the company before they received the unearned status upgrade). After providing this information about their status endowment, respondents evaluated their current relationship with the company.

Measures. To capture customers' freedom of choice and proximity to status achievement, we coded single items pertaining to how customers received their endowed status and whether they were good customers before their status upgrade (i.e., by means of a median split) into dichotomous variables, respectively. We turned to a well-established multi-item scale for customer value perceptions (Sirdeshmukh, Singh, and Sabol 2002). The multi-item measures for customer gratitude, customer skepticism, and customer attitudinal loyalty were identical to those in Studies 2 and 3. To capture behavioral loyalty, we also asked respondents to indicate their share of wallet at the focal firm before and after the unearned status upgrade and then calculated the change as a percentage.

Validity assessment. We assessed the psychometric properties of all multi-item constructs in Study 4 using confirmatory factor analysis. The factor loadings, Cronbach's α , composite reliability, and average variance extracted values indicated convergent validity. In support of discriminant validity (Fornell and Larcker 1981), the square root of the average variance extracted for each construct was greater than all construct correlations (see Table 2).

In line with the suggestions of Podsakoff et al. (2003), we tested for common method bias in our sample. We account for the amount of common method variance in our indicator variables by adding a common method factor to our model. Following the procedure proposed by Liang et al. (2007), we compared the variances of each observed indicator explained by its substantive construct and the method factor, respectively. While we find the average substantively explained variance to be 89.9%, the average method-based variance only accounts for 0.3%. Thus, the results demonstrate a ratio of substantive variance to method variance of about 286:1, which leads us

to conclude that common method bias represents no substantial concern for our sample.

Results. We used PLS to assess the nomological net of constructs (replication tests of Hypothesis 5a/b, 6a/b, 7a/b, and 8a/b). This approach replicated most of our findings from Studies 2 and 3 (see Tables 3 and 4). Beyond that, the path coefficient between customer attitudinal loyalty and customer incremental sales ($\beta = .21, p = .00$) was positive and significant, indicating a positive effect of attitudinal on behavioral loyalty. To account for any potential industry effects, we grouped the hierarchical loyalty programs mentioned by our participants into their respective industries and estimated an alternative model that included interaction terms between our three independent variables and our industry dummies. We did not find any interaction effects. Thus, the established effects of customer value perceptions on customer gratitude and of freedom of choice, proximity to status achievement as well as customer value perceptions on customer skepticism did not vary across different industries, which increases our confidence in the stability and nomological validity of our conceptual model.

Discussion of findings. Study 4 results establish the loyalty-increasing effects of customers' freedom of choice, proximity to status achievement, and value perceptions in a field context. Replicating our experimental findings for actual status endowment cases covering a variety of programs and industries offers strong support for the external validity and generalizability of our conceptual model. Moreover, we show how customers' attitudinal loyalty indeed translates into subsequent behavioral loyalty toward the company bestowing endowed status on customers.

Discussion and Implications

To the best of our knowledge, this study is the first to analyze, theoretically and empirically, the observed business practice of endowing elevated status to customers in hierarchical loyalty programs. Previous research suggests a loyalty-increasing effect of achieved elevated status (Drèze and Nunes 2011; Lacey, Suh, and Morgan 2007), but no study has investigated whether this positive impact holds for status endowment. Understanding the effect of an endowed elevated status on customer loyalty is important for marketing managers; it allows them to evaluate how to use status endowment as a purposeful instrument for managing customer relationships. We sought to shed light on the psychological processes by which endowed elevated customer status affects customer attitudinal loyalty and analyze how program designs can be adjusted to enhance the effectiveness of status endowment efforts.

Employing a mixed-method approach, we identify both bright- and dark-side effects of endowed elevated customer status on customer attitudinal loyalty. Our qualitative study reveals customer gratitude and customer skepticism as psychological processes through which endowed status affects customer attitudinal loyalty. We also substantiate these findings

in two experimental studies: Comparing endowed with both no and achieved elevated customer status, we determine that customer skepticism impairs the effectiveness of status endowment. However, the relationship between endowed status and customer skepticism can be mitigated if companies adopt design characteristics to exploit the potential of endowed status as a loyalty-enhancing tool. Customers' freedom of choice, proximity to status achievement, and perceptions of the value of the preferential treatment all help alleviate customer skepticism. By attenuating the dark side, these designs emphasize the positive impact of the endowed status on customer attitudinal loyalty.

These differential effects of status endowment have four main implications for services. First, across three research formats (qualitative, experimental, and survey) and various industries, we find evidence of simultaneous bright- and dark-side effects of endowed status on customer attitudinal loyalty. Although customer gratitude, as a well-established driver of positive relationship outcomes, enhances loyalty, customer skepticism acts as an opposing force, tempering customers' loyalty responses. The negative loyalty influence can severely impair positive effects if the status endowment is designed improperly, which greatly limits the effectiveness of status endowment as a means to drive customer attitudinal loyalty. These insights match and amplify recent findings that suggest confronting customers with unearned or discretionary preferential treatment brings about unintended negative effects (Butori and De Bruyn 2013; Jiang, Hoegg, and Dahl 2013; Zhang and Huang 2010). Conventional wisdom turns on the assumption that people react positively to being treated preferentially; our research demonstrates the need to acknowledge the unintended dark sides of relationship marketing investments on focal customers. When designing marketing programs, managers must consider the psychological processes those programs are likely to spur in customers' minds. Concepts such as customer skepticism (Babin, Boles, and Darden 1995; Boush, Friestad, and Rose 1994) in turn might serve as rich sources of customer insights and deserve greater attention in customer relationship evaluations.

Second, the dark side of endowed elevated customer status is contingent on the design of the status endowment. Managers should carefully consider how to elevate customers' status, to avoid fostering further skepticism. Status endowment should not be designed as a "pure" endowment but rather should be carried out in a way to augment customers' perceptions of their own personal choice or achievement. When the company gives target customers an opportunity to make an active choice about being endowed, selects target customers who are close to achieving elevated status, or both, it helps enhance customers' attributions of the status endowment to their own behavior, which alleviates skepticism. Managers of hierarchical loyalty programs can capitalize on the loyalty-increasing potential of status endowment through appropriate designs.

Third, the effectiveness of status endowment also depends on the characteristics of the loyalty program, including the perceived value of the preferential treatment. When elevated status

offers high-value benefits, customers' attitudinal loyalty is higher than if the company provides elevated status with only low value. This positive loyalty effect stems from the enhanced customer gratitude and reduced customer skepticism. Offering valuable benefits to target customers has positive effects, in both endowment and achievement contexts, but the impact of perceived value is particularly strong for achieved status customers. A company's ability to provide superior value to target customers depends on the extent to which its services are perishable (Kumar and Reinartz 2012). Companies such as airlines and hotels can easily offer high-value preferential treatment by exploiting their underutilized, perishable assets (e.g., unbooked seats or hotel rooms) at low additional costs. Firms that lack unused capacities to use as loyalty program rewards instead have to invest in costly rewards that are valued by customers (e.g., Macy's hires celebrities to attend its exclusive gold status customer events). That is, providing superior value is more challenging for some loyalty program managers than for others, depending on the service category.

Fourth, status endowment and its different characteristics affect not just customer attitudinal loyalty but also their reported behaviors toward the company. We find a positive influence of customer attitudinal loyalty on customers' incremental share of wallet. Enhancing share of wallet is a central objective of many loyalty programs (Meyer-Waarden 2007). If companies can increase attitudinal loyalty through status endowment, it likely results in positive customer behaviors, including a greater share of wallet.

Limitations and Further Research

This article offers an initial investigation of the effect of endowed elevated customer status on customer loyalty. Several limitations offer opportunities for further inquiry. First, we investigate target customer responses to status endowment, without accounting for the responses of bystander customers (Henderson, Beck, and Palmatier 2011; Steinhoff and Palmatier 2014). Fairness concerns strongly affect customer relationships (e.g., Samaha, Palmatier, and Dant 2011), and status endowment might seem unfair to customers who have both received through achievement and not received elevated customer status. Focal customers' loyalty might be enhanced through gratitude, but bystanders' loyalty might be threatened by perceived unfairness. Additional research should consider both target and bystander customers to determine the overall impact of status endowment on the customer portfolio.

Second, we focus on customer reactions to status elevation, but our study does not allow consideration of whether these customers might lose their elevated status if they do not maintain the loyalty program's requirements. Wagner, Hennig-Thurau, and Rudolph (2009) show that being demoted from a higher to a lower tier in a hierarchical loyalty program lowers customers' loyalty. The negative loyalty effect of status demotion is even stronger than the positive loyalty effect of elevation. In turn, an interesting research avenue would be to investigate the effects of status demotion in an endowment

context. Endowed customers might react differently to demotions, because they did not earn their elevated status in the first place, while achieved status customers exerted effort to reach their status. Understanding the distinct effects of status demotion would provide valuable insights into the long-term impact of status endowment for enhancing loyalty.

Third, we study customer loyalty as an attitude and self-reported behavior (i.e., Study 4). Self-reported behaviors can only serve as proxies for actual customer behavior. At this exploratory stage, we consider our methodological approach (qualitative, experimental, and survey) helpful for establishing the psychological processes that drive behaviors; as a next step, researchers should examine the effects of endowed elevated customer status in a real business context, tracking customers' actual buying behavior as an endogenous variable over time. For example, analyzing customer relationship management data might reveal the short- and long-term effects of status endowment on several dimensions of purchase behavior (e.g., amount and frequency).

Fourth, we review status endowments from various industries in our empirical studies, but all of them involved business-to-consumer settings. Although more prevalent among consumer firms, we also find some hierarchical loyalty programs offered by business-to-business firms (Wetzel, Hammerschmidt, and Zablah 2014). Research to address the effectiveness of hierarchical loyalty programs in such business relationships might examine whether and how business customers' responses to status endowment differ from those of end consumers.

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Supplemental Material

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