



Contents lists available at ScienceDirect

Journal of Business Research



Leveraging loyalty programs to build customer–company identification☆

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ARTICLE INFO

Article history:

Received 6 August 2014

Received in revised form 27 September 2015

Accepted 28 September 2015

Available online xxx

Keywords:

Loyalty programs

Customer–company identification

Customer status

Belongingness

ABSTRACT

This study proposes that loyalty programs lead to customer–company identification (CCID) formation. The empirical results show that non-financial benefits from loyalty programs can promote CCID by inducing customers' feelings of status and belonging in a company-initiated community. Relationship marketers interested in building customer identification with loyalty programs therefore should design proper non-financial investment portfolios to strengthen and confirm customers' feelings of status and belongingness.

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1. Introduction

Companies employ loyalty programs to reward and encourage repeat patronage (Henderson, Beck, & Palmatier, 2011; Leenheer, van Heerde, Bijmolt, & Smidts, 2007). The rewards or benefits of a loyalty program can be either financial/economic (Mimouni-Chaabane & Volle, 2010) or non-financial/social (Gwinner, Gremler, & Bitner, 1998). The ultimate goal of such programs is to increase consumer spending in their particular store (Leenheer et al., 2007; Mägi, 2003) and to capture a greater share of customer wallet (Evanschitzky et al., 2012).

The effectiveness of loyalty programs, however, is inconclusive and research debates their worth (see Shugan, 2005). Henderson et al. (2011) suggest that a firm focus on the financial rewards of loyalty programs is one reason these programs fail to maintain customers long term, and that future research should focus on non-financial benefits (e.g., status, habits, and relationships). Research identifies customer–company identification (CCID) as an effective sociological mechanism through which loyalty programs can build and maintain relationship-based customer loyalty (Leenheer et al., 2007). This mechanism provides a natural overlap of the gaps in CCID research and the need for more focused research on the benefits of loyalty programs. In the context of loyalty programs, non-financial benefits provide customers with a basis for developing a deeper relationship and identity with the company, specifically, CCID.

CCID represents “the primary psychological substrate for the kind of deep, committed, and meaningful relationships that marketers are increasingly seeking to build with their customers” (Bhattacharya & Sen, 2003, p. 76). CCID leads to favorable outcomes such as loyalty, share of wallet, positive word of mouth, and willingness to pay (Ahearne, Bhattacharya, & Gruen, 2005; Homburg, Wieseke, & Hoyer, 2009; Netemeyer, Heilman, & Maxham, 2012). Customer identification solidifies the linkages of customers and their identities to the focal company's image, brands, employees, and even the in-group of other customers. CCID is therefore an important facet of the customer–company relationship which keeps customers connected to a company, and is a key indicator of relationship equity (Rust, Zeithaml, & Lemon, 2000).

The body of literature examining the drivers of CCID has limited application in loyalty program research. A review of the literature on CCID, summarized in Appendix 1, finds that the antecedents to CCID are located at the customer, company, and product levels. This review identifies three gaps. First, scant research examines the antecedents of CCID. The foundational work on company identification (e.g. Bergami & Bagozzi, 2000; Bhattacharya, Rao, & Glynn, 1995; Bhattacharya & Sen, 2003) focuses on the attributes of the focal organization for identification but does not explore the perceived benefits customers receive from identifying with the organization or its programs as drivers of CCID. Second, few studies investigate marketing practices (other than CSR) and their effects on CCID. Finally, the marketing programs that consumers directly participate in have more direct benefit to CCID than an overall evaluation of the firm. To that end, the literature is limited with regard to the social benefits consumers receive from a particular and regular interaction with the firm.

To address these gaps in loyalty program and CCID research, this study tests a theoretical model focusing on the development of CCID

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within the context of a consumer loyalty program. Grounded in social identity theory (Tajfel & Turner, 1986), a relationship equity framework (Rust et al., 2000) and the literature on loyalty programs (e.g., Henderson et al., 2011), this research examines how non-financial rewards in loyalty programs contribute to CCID. The findings make several contributions to the literature. First, the authors demonstrate that specific marketing programs can influence CCID. In particular, loyalty programs that offer non-financial benefits, such as (1) personal recognition, (2) preferential treatment, and (3) exploration experiences, prove effective at strengthening customer identification. Second, this research demonstrates that feelings of status and belonging mediate the relationship between loyalty program benefits and CCID. This finding not only reveals the working paths of loyalty programs towards CCID formation, and confirms the efficacy of loyalty programs as an important driver of relationship equity. Third, the findings provide evidence of the efficacy of non-financial loyalty program benefits. Substantively, this finding sheds light on how managers can maximize the impact of loyalty programs – that is, by highlighting the social benefits of participation.

2. Theoretical background

2.1. Social identity theory

Social identity theory focuses on how individuals perceive themselves in reference to their standing in social groups, as well as the status of those groups in comparison with other social groups (Tajfel & Turner, 1979). Tajfel (1972, p. 292) formally defines social identity as “the individual's knowledge that he belongs to certain social groups together with some emotional and value significance to him of this group membership.” Social groups help individuals define who they are and, through membership, confirm their identity to themselves and others.

Central to social identity theory is the belief that individuals seek “distinctiveness” for both themselves and their groups (Turner, 1975) and are motivated to attain a positive self-concept as “individuals strive to achieve or to maintain positive social identity” (Tajfel & Turner, 1979, p. 16). Ashforth and Mael (1989) propose that social identity theory is relevant in the study of relationships between individuals and organizations. Membership in a loyalty program creates an in-group environment that induces distinctiveness and favoritism based on the connection, treatment, and benefits embodied in a loyalty program.

2.2. CCID

The concept of CCID is grounded in social identity theory. The extension into organizational contexts emerges as individuals develop organizational identification through a sense of connectedness with an organization, such that they begin to define themselves in terms of the focal organization (Mael & Ashforth, 1992). Just as formal organizational members (e.g., employees) identify with employers, customers do so in the form of CCID (Bhattacharya & Sen, 2003; Bhattacharya et al., 1995).

The link between the customer and the company is a stronger, more enduring customer–company bond than organizational commitment (Bhattacharya & Sen, 2003). To produce a psycho-social bond, the customer must find the company identity attractive and the development of identification helps him or her satisfy basic self-definitional needs, including a desire for self-enhancement achieved by expressing a positive self-concept to the outside world (Tajfel & Turner, 1986). A customer identifies with a company if doing so increases feelings of self-worth through enhanced connections and social standing.

Achieving identification also demands effective communication of the company's identity. Bhattacharya and Sen (2003) propose leveraging product offerings, corporate social initiatives, channel partners, and employees to communicate company identity. Subsequent empirical research for example, affirms that salesperson attributes help convey a company's identity (Netemeyer et al., 2012).

2.3. Loyalty programs

Customer loyalty programs constitute integrated systems of marketing actions that reward loyal customer behaviors with incentives and benefits, financial or non-financial (Sharp & Sharp, 1997). These benefits work together to influence customers' buying habits, enhance perceptions of social status, and improve relationships with the company (Henderson et al., 2011). Financial benefits (Mimouni-Chaabane & Volle, 2010) are necessary in many cases to attract customers to join the program. Yet financial benefits alone create the risk of retaining unprofitable customers and losing customer loyalty if competitors offer better financial benefits (Evanschitzky et al., 2012). Therefore, loyalty programs also offer non-financial benefits, such as fraternization, friendships, and personal recognition (Gwinner et al., 1998). The sociological nature of these non-financial benefits may drive customer–company bonds when the programs communicate positive, attractive company identities (Bhattacharya & Sen, 2003). Loyalty programs that offer varying benefits across customer groups may also help customers self-categorize and facilitate identification (McMillan & Chavis, 1986).

Considering these characteristics, this study focuses on non-financial loyalty program benefits that can help extend customer relationships beyond immediate transactions (Kivetz & Simonson, 2002; Nunes & Drèze, 2006). Because non-financial benefits offer opportunities for social interactions with other customers, economic-based customer relationships can transition into more socially based, reciprocal relationships (Palmatier, Dant, Grewal, & Evans, 2006). The delivery of non-financial benefits also facilitates unique, innovative interactions with customers, which can enhance CCID (Cardador & Pratt, 2006).

2.4. Relationship equity and loyalty programs

Relationship equity refers to the tendency of a customer to stick with a brand or a company over and above perceived value and brand effects (Rust et al., 2000). Along with value equity and brand equity, relationship equity is a key driver of customer loyalty intentions and switching costs (Rust, Lemon, & Zeithaml, 2004; Vogel, Evanschitzky, & Ramaseshan, 2008). In the practice of relationship marketing, customer–company connections are evolving from a transaction based relationship to a more socially based relationship (Palmatier, Dant, et al., 2006). CCID, a deeper relationship between the customer and the company, represents a new path to build and maintain relationship equity (Bhattacharya & Sen, 2003). Recent studies confirm that CCID plays a central role in relationship equity management (e.g. Bagozzi, Bergami, Marzocchi, & Morandin, 2012; Homburg et al., 2009).

Loyalty programs are important marketing tools in relationship equity (Rust et al., 2000). For example, a loyalty program may be an effective lever of relationship equity if it delivers additional value from membership, special recognition, emotional connections, a sense of community, and knowledge learning (Rust et al., 2004). More specific examples of these values include personal recognition by employees, meetings among customers, and familiarity with the company's employees (Vogel et al., 2008). These insights reveal that a company can leverage its loyalty program to build and manage CCID through a deliberately designed portfolio of program benefits.

2.5. Conceptual model

This study utilizes the framework of relationship equity to explore the formation of CCID in the context of customer loyalty programs. The conceptual model presented in Fig. 1 focuses on the three non-financial benefits identified by Rust et al. (2000) as useful in building relationship equity: (1) personal recognition, (2) preferential treatment, and (3) exploration experience. First, personal recognition benefits accrue when customers meet new people or are recognized by others through the use of a loyalty program (Gwinner et al., 1998). Personal recognition reflects the benefits of a special recognition program and

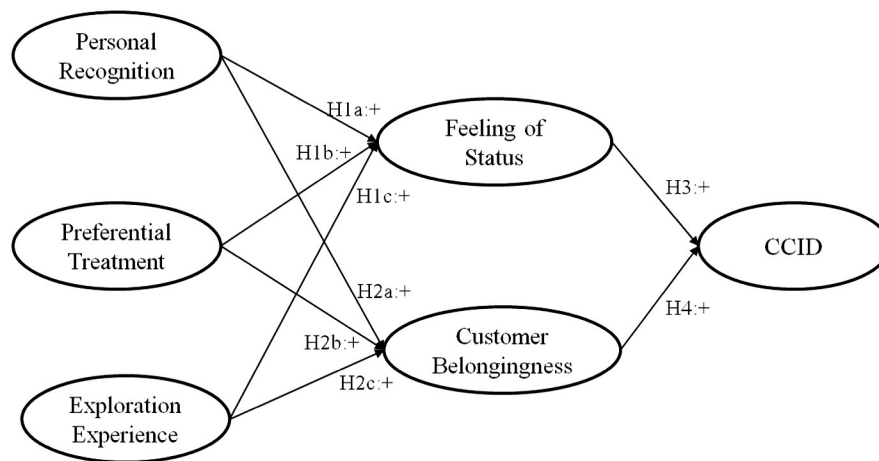


Fig. 1. Conceptual model.

may facilitate the familiarity among customers or between customers and employees. For example, Banana Republic's loyalty program encourages communication between customers and employees or among customers by sponsoring in-store gatherings. Second, preferential treatment benefits result from preferred or customized services that indicate respect for customers (Gwinner et al., 1998), as when airlines' loyalty program members access special lines to board the plane first. Essentially, the term "preferential treatment" refers to any special or privileged treatment a customer receives from his or her membership in a loyalty program.

Third, exploration experience benefits include opportunities for customers to participate in exploring new products, which addresses hedonic needs (Mimouni-Chaabane & Volle, 2010). Many apparel companies (e.g., Nordstrom, New York & Company) offer benefits by sending loyal customers information about and opportunities to try out emerging style trends. Exploration experience as a type of hedonic benefit is attractive to customers, especially to those who value opportunities of socializing and bonding, and those who are interested in keeping up with trends and new fashions or searching for new products and innovations (Arnold & Reynolds, 2003). The symbolic elements of the patronage experience associated with a brand or a company are used by customers to evaluate their relationships with the brand or the company (Hirschman & Holbrook, 1982). The social interaction and knowledge sharing embedded in the exploration experience help customers make sense of themselves and build social identities, social acceptance, and affiliation (Arnold & Reynolds, 2003).

3. Hypotheses development

3.1. Non-financial benefits and feelings of status

Social identity theory indicates that individuals make deliberate self-comparisons with others and desire to perceive themselves as superior or distinctive to others (Turner, 1975), and empirical research confirms that comparisons exist among loyalty program members (Drèze & Nunes, 2009). A customer's sense of status in a loyalty program reflects their perceived relative standing in the program (Henderson et al., 2011). Although marketers design loyalty programs with different combinations of financial and non-financial benefits, the latter having emotionally oriented elements, make customers feel exclusive and increase their sense of elevated status (Drèze & Nunes, 2009).

Customers tend to develop feelings of status by realizing positional advantages in a hierarchical structure (Henderson et al., 2011). In hierarchical loyalty programs, customers perceive high status from employee

recognition, because only customers at a higher level of the loyalty program attract this attention (Drèze & Nunes, 2009). By knowing or identifying with other special customers or employees in a group, individuals also develop a stronger feeling of self-centrality, which leads to a sense of positional superiority (Henderson et al., 2011).

Customers in loyalty programs believe that the benefits received from the program correspond to their relative status (Wagner, Hennig-Thurau, & Rudolph, 2009). Those who experience preferential treatment or tailored services to meet their particular needs may develop a strong feeling of status. In addition, customers perceive status through recognition of their achievements or esteem received from others (Van Prooijen, Van den Bos, & Wilke, 2002). Invitations to explore new products may shift the customer's experience and perception of status, from just customers to co-producers of the company's products (Xie, Bagozzi, & Troye, 2008).

In summary, various non-financial benefits indicate a customer's relative position in the loyalty program and reflect the company's respect for and confirmation of the customer's achievement and status. Loyalty program participants can detect and perceive this status, according to the level of non-financial benefits received. Thus,

H1. The non-financial benefits of a loyalty program – (a) personal recognition, (b) preferential treatment, and (c) exploration experience – are positively related to customer feelings of status in a loyalty program-based community.

3.2. Non-financial benefits and feeling of belonging

Customer belongingness refers to the belief and expectation that the customer has a position that others within the customer group recognize (McMillan & Chavis, 1986). This feeling of belonging, along with an emotional connection and a sense of a value, is a central element in defining one's social identity (Tajfel, 1972). A customer's actual membership in a relational customer community is the first step, but developing emotion, receiving value, and being valued, are required to establish a strong and deeply held identification with the company.

Personal recognition during customer–employee or customer–customer interactions can lead the customer to develop an enhanced feeling of belonging to that community. Social welcoming practices (e.g., greeting new members, assisting in their socialization) increase perceptions of community homogeneity and personal relatedness, as well as reinforce social bonds between customers and employees (Schau, Muñiz, & Arnould, 2009). Actions that demonstrate that a

company values the customer's continued relationship strengthen the belongingness.

Companies can also enhance customer belongingness by showing that other members are willing to invest in and sacrifice for the group (McMillan & Chavis, 1986). In the customer's eyes, offering preferential treatment (e.g., customization for specific needs, additional customer consideration) requires the company to exert extra effort, in terms of money, time, and labor (Gwinner et al., 1998). Preferential treatment granted to members makes them feel connected with the same relational community. Sacrifice and extra investment signal that a company wants to achieve closeness with its community members (McMillan, 1996). Customers perceive these efforts as the company's desire to provide additional value for their membership of a loyalty program.

From a customer perspective, exploration experience reflects the company's extra care for a customer's experience, beyond buying, and confirmation of customer membership. Engaging customers in company milestones (e.g., new product launches), inviting customers to try new products, and updating customers with new consumption trends explicitly signal that customers are involved in a company-initiated community (Arnold & Reynolds, 2003; Mimouni-Chaabane & Volle, 2010). A company that invites customers to explore new products through a loyalty program validates customers' belief that the company needs and welcomes those members. Accordingly,

H2. The non-financial benefits of a loyalty program – (a) personal recognition, (b) preferential treatment, and (c) exploration experience – are positively related to customer belongingness to a loyalty program-based community.

3.3. Feeling of status and CCID

The foundation of CCID is a customer's use of the company identity to build individual social identities to meet self-definitional needs (Bhattacharya & Sen, 2003). These self-definitional needs include the need for self-distinctiveness, self-enhancement, and self-continuity (Tajfel & Turner, 1986). Any process that fulfills any combination of these three needs can promote the occurrence of CCID (Bhattacharya & Sen, 2003).

The feeling of status in a loyalty program can help customers distinguish themselves from others in social contexts, due to perceived exclusiveness or distinctiveness (Turner, 1975). Customers often must work to achieve a certain status, resulting in the belief that a higher standing in a loyalty program is relatively exclusive (Drèze & Nunes, 2009). Status-signaling labels (e.g., platinum members) also document customers' self-distinctiveness (Henderson et al., 2011).

The feeling of status also offers customers opportunities for self-enhancement. On the one hand, a perception of current status helps customers develop self-concepts. On the other hand, the feeling of status reveals routines of self-enhancement with social comparison (Henderson et al., 2011). For example, comparisons with higher status groups motivates customers to achieve, while comparisons with lower status groups help customers develop self-esteem, because customers with higher status believe they deserve more resources and attention from the company (Han, Nunes, & Drèze, 2010). The feeling of status facilitates CCID by helping customers fulfill self-distinctiveness and self-enhancement needs.

H3. Customer feelings of status in a loyalty program-based community is positively related to CCID.

3.4. Feeling of belonging and CCID

While a formal relationship (e.g., membership) with a company is not a necessary condition for identification, those relationships do provide a favorable condition to build CCID because they help fulfill

customers' self-continuity needs (Bhattacharya & Sen, 2003; Cardador & Pratt, 2006). Belongingness leads customers to realize the similarity between the company and themselves (Bhattacharya et al., 1995). Customers who believe that the community welcomes and accepts them feel a stronger attraction to the community associated with the loyalty program (McMillan, 1996). This attraction encourages stickiness and interaction with the community, resulting in stronger matches between company- and self-identities (Bhattacharya et al., 1995).

Finally, social bonds based on belonging can strengthen the socially embedded relationships of customers with a company-initiated community, in addition to the core products (Bagozzi et al., 2012). This embeddedness makes customers feel more like insiders than outsiders, shaping their social identity spontaneously (Ahearne et al., 2005; Bhattacharya et al., 1995). Once customers are embedded in a company-initiated community, they will invest more emotionally in the development and success of this community, facilitating the formation of CCID (McAlexander, Schouten, & Koenig, 2002). Therefore,

H4. Customer feelings of belongingness in a loyalty program-based community are positively related to CCID.

4. Methodology

4.1. Sample

The test of the proposed model uses data gathered from an online survey focused on young consumers. A snowball convenience sampling technique served to identify and develop the panel, consistent with convenience sampling techniques applied in previous empirical research (Liu & Yang, 2009). The final sample consisted of 470 consumers, 44% of whom were women, and the average age was 30.

Following Gwinner et al.'s (1998) procedure, respondents were instructed to recall their experience with one loyalty program in any product or service category and to keep the experience with this selected program in mind throughout the survey. Ultimately, respondents reported loyalty program membership in various product and service categories, including grocery (28%), drugstores (22%), apparel (8%), travel and entertainment (15%), auto service and gasoline, dining out, electronics, and credit cards (5% each). The remainder memberships were from other categories, such as books and office supplies, fitness and sports, home furnishing, warehouse clubs, each of which accounted for less than 5% of the sample.

4.2. Measures

The measures used in this study came from established scales. Each used a 5-point Likert response format (1 = strongly disagree, 5 = strongly agree). Respondents reported perceived non-financial benefits from their favorite loyalty programs across a series of activities. Personal recognition referred to recognition from others in social relationship development (Gwinner et al., 1998; $\alpha = .83$), preferential treatment involved overall perceptions of customized and extra service (Mimouni-Chaabane & Volle, 2010; Palmatier, Gopalakrishna, & Houston, 2006; $\alpha = .84$), and exploration experience entailed new product discovery invitations received through loyalty programs (Mimouni-Chaabane & Volle, 2010; $\alpha = .90$). The measure of feeling of status used a three-item scale (Drèze & Nunes, 2009; $\alpha = .80$). Feeling of belonging used three items adapted from Mimouni-Chaabane and Volle (2010) ($\alpha = .85$). CCID featured three items adapted from Homburg et al. (2009) ($\alpha = .85$). Finally, customer perceived financial benefits from a loyalty program served as a control variable (Palmatier, Gopalakrishna, et al., 2006; $\alpha = .70$). Appendix 2 provides an overview of the construct items, construct loadings, and other measurement properties.

4.3. Analysis

Partial least squares structural equation modeling (PLS-SEM) with SmartPLS 2.0 tested the measurement and structural hypotheses (Fornell & Cha, 1994; Ringle, Wende, & Will, 2005). This method is appropriate because of the nature of the study; the sample size met the 10 times minimum sample size requirement in PLS-SEM (Hair, Sarstedt, Ringle, & Mena, 2012). PLS integrates the test of the measurement along with the structural path model. The results are based on (1) assessment of the measurement model, (2) evaluation of the structural model, and (3) a test of potential mediation effects. Factor loadings tested the outer measurement model and, in turn, reliability and validity. The overall structural model is assessed by examining the size and significance of the path coefficients and the R-squares for the dependent constructs. A bootstrap resampling procedure estimated the standard errors and t-values.

5. Results

5.1. Measurement validation

All constructs were assessed for their reliability as well as convergent and discriminant validity. Appendix 2 shows each construct's measurement items, factor loadings, and psychometric properties. Table 1 presents the correlation matrix. All Cronbach's alpha values (α) and composite reliabilities (ρ) are above 0.70, in line with recommendations for acceptable reliability of multi-item scales (Bagozzi & Yi, 1988). For convergent validity, all items loaded significantly on the a priori predicted latent construct, and the average variance extracted (AVE) values for each latent construct were above 50%. Discriminant validity is supported as the squared correlations between each pair of constructs are less than their respective AVEs (Fornell & Larcker, 1981).

5.2. Common method bias

To determine the potential bias caused by common method variance (CMV), this study followed the marker variable technique (Lindell & Whitney, 2001). A marker variable measuring the possibility of offering loyalty programs (i.e., "Compared with local stores, the possibility of national chains to offer loyalty programs is ..." [very low/quite high]) met Lindell and Whitney's (2001) criterion of being theoretically unrelated to the predictors and outcome variables. Two separate tests served to assess CMV bias. First, the adjustment of the original correlations among constructs for the smallest correlation of the marker variable with all other constructs (i.e., $r = .06$) revealed through a comparison that all adjusted correlations maintained their size and pattern of significance. Second, with this marker as a control variable, structural parameters were re-estimated by adding paths from this marker variable to all endogenous variables (Fang, Palmatier, & Evans, 2008). This method effectively partials out the influence of CMV (Grayson, 2007).

Table 1
Descriptive statistics and correlations (N = 470).

Construct	Mean	SD	1	2	3	4	5	6	7
1. Recognition	2.27	.98	.87						
2. Preferential treatment	2.35	.84	.57*	.82					
3. Exploration experience	3.19	1.05	.31*	.36*	.92				
4. Feeling of status	2.46	.89	.56*	.70*	.38*	.84			
5. Feeling of belonging	2.91	.91	.48*	.60*	.58*	.65*	.88		
6. CCID	3.56	.77	.28*	.34*	.42*	.48*	.63*	.88	
7. Financial benefits	4.01	.58	.00	-.02	.22*	.09	.20*	.36*	.72

Note: The off-diagonal entries are correlations among constructs. On the diagonal is the square root of AVE values.

* $p < .01$.

No path coefficients, in Table 2, show significant change, evidence that CMV does not bias the results of this study (Lindell & Whitney, 2001).

5.3. Structural model and hypotheses testing

The estimated path coefficients, t-value, and R-square value of each dependent construct in the proposed model appear in Table 2. The results show that all hypotheses were supported. H1a, H1b, and H1c predicted positive relationships of personal recognition, preferential treatment, and exploration experience with customer feelings of status; the standardized path coefficients (γ_{H1a} , γ_{H1b} , and γ_{H1c}) were .22, .54, and .10, respectively ($p < .01$). Personal recognition ($\gamma_{H2a} = .14$, $p < .01$), preferential treatment ($\gamma_{H2a} = .40$, $p < .01$), and exploration experience ($\gamma_{H2c} = .35$, $p < .01$) also related positively to customer belongingness, consistent with H2a, H2b, and H2c. The prediction of a positive influence of feeling of status on CCID in H3 ($\gamma_{H3} = .18$, $p < .01$) is significant and in line with the hypothesis. The results also provided support for H4, which predicted a positive effect of customer belongingness on CCID ($\gamma_{H4} = .52$, $p < .01$). The explanatory power of the proposed model was reasonably high, according to the R-square value of the dependent constructs. The R-squares for customer feelings of status and belonging were .56 and .56, respectively; CCID had an R-square of .54.

A supplementary hierarchical regression analysis including industry dummy variables was run to account for any extraneous effect the industry of the loyalty program may have on the theoretical model. By entering the industry variables first, and key study variables second, the results of this supplementary analysis show that the industry dummy variables only account for a relatively small amount of the total variance of the dependent variables. Importantly, after controlling for the industry of the loyalty program, all path coefficients are consistent to those reported above.

5.4. Mediation testing

A follow-up analysis explored the mediating roles of program loyalty and CCID by comparing nested models that included direct effect paths (Zhao, Lynch, & Chen, 2010). With F-tests of differences between models, this analysis determined whether the R-square of the dependent construct changed significantly (Cohen, Cohen, West, & Aiken, 2003). Customer feelings of status and belonging together fully mediated the effects of non-financial benefits on CCID, because the direct effects of personal recognition ($F = .25$), preferential treatment ($F = .51$), and exploration experience ($F = .03$) on CCID did not significantly change the R-square of CCID.

6. Discussion

This study provides new research findings on the role of marketing tools in managing CCID, an important task for relationship marketers (Bhattacharya & Sen, 2003). Specifically, this study shows that the investments in non-financial benefits through customer loyalty programs can lead to CCID. This finding indicates that loyalty programs warrant additional examination in the creation of deep customer relationships. Traditional perspectives on loyalty programs suggest encouraging repeated purchases through financial rewards, in line with the economic exchange view on developing and maintaining customer relationships (Henderson et al., 2011). However, this study shows that non-financial incentives to loyalty program members can be leveraged to promote the formation of CCID, a relationship embedded in social needs and interactions.

Non-financial rewards delivered through a loyalty program cannot lead to the formation of customer identification without inducing customer feelings of status and belonging to a company-initiated community. Customer belongingness is an immediate precursor of CCID. Although these feelings are more manifest with organizational membership, a loyalty program also can induce them by enhancing

Table 2
Structural model coefficients.

Path	Theoretical model			Controlling for a marker variable		
	Standardized estimates (γ)	t-Value	R ²	Standardized estimates (γ)	t-Value	R ²
H1a	Recognition → feeling of status	.22	4.47*	.22	4.47*	
H1b	Preferential treatment → feeling of status	.54	12.41*	.54	12.38*	
H1c	Exploration experience → feeling of status	.10	3.04*	.10	2.89*	
	Financial benefits → feeling of status	.10	3.05*	.09	2.86*	.56
H2a	Recognition → feeling of belonging	.14	3.13*	.15	3.17*	
H2b	Preferential treatment → feeling of belonging	.40	9.17*	.40	9.13*	
H2c	Exploration experience → feeling of belonging	.35	9.72*	.34	9.07*	
	Financial benefits → feeling of belonging	.16	4.84*	.13	3.74*	.57
H3	Feeling of status → CCID	.18	4.04*	.21	4.86*	
H4	Feeling of belonging → CCID	.52	11.26*	.48	9.95*	
	Financial benefits → CCID	.23	5.55*	.22	5.13*	.55

Note: The t-value based on the bootstrap resampling procedure in SmartPLS (470 cases and 5000 runs).

* $p < .01$.

customer perceptions of virtual membership within a company-initiated community.

6.1. Managerial implications

A key managerial implication from this study is that managers should acknowledge the potential role of customer loyalty programs in developing strong socially focused customer relationships (e.g., CCID). Relationship marketers should exploit these new insights into loyalty programs when managing customer relationships. This study's findings suggest that loyalty programs are a proper platform for companies to develop deeper social relationships with customers. Although boundary-spanning employees are the main intermediaries in social relationships with customers (Cardador & Pratt, 2006; Netemeyer et al., 2012), appropriate benefits offered through loyalty programs can also work to this end.

This study confirms the potential of leveraging loyalty programs to build customer identification, with several specific suggestions for managerial practice. First, managers focused on customer relationship management should consider the positioning and design of programs to meet the self-definitional needs of their customers. Second, improving customer perceptions of membership is critical to the formation of customer identification. Relationship marketers should be cautious of the distinction between membership enrollment and customer belongingness. Membership associated with loyalty program enrollment will not immediately induce customer identification unless customers attain a sense of belonging in that community. For customer identification formation, management focus should be on leveraging loyalty programs to strengthen customer belongingness to and acceptance by a company-initiated community.

Finally, marketers should design proper non-financial benefits for customers when leveraging their loyalty programs to build customer identification. As a complement to financial benefits, non-financial benefits in a loyalty program are effective for managing customer relationships, especially socially based ones. However, relationship marketers should consider the differential effects of various social investments when designing portfolios of rewards for loyalty programs. An innovative social reward strategy, including both customer participation and entertainment, can induce customer belongingness and customer identification. For example, a loyalty program offering personalized or tailored services or communications to its members should be effective.

6.2. Limitations and further research

The model presented and tested herein provides a new perspective on customer relationship marketing with loyalty programs. Further research should explore the effects of other factors associated with a

loyalty program on customer identification formation. Examples include portfolios and timings of rewards and the hierarchical structure of the program.

Along with investigating the mechanisms of customer identification, additional research should explore how loyalty programs can communicate company identities to customers. For example, what factors facilitate the communication of company identities to customers with similar or different levels of loyalty when they participate in program-based events? Further research also might consider the fast growth of Internet marketing where future research may look at how online loyalty programs influence CCID in virtual communities. The incorporation of online exploration experience may work in such a virtual community. For example, Starbucks created a special marketing research online community (<http://mystarbucksidea.force.com/>) for customers to pose suggestions and comments, vote for ideas, and see the full-circle their incorporation into the company's actions. Through this exploration experience, customers can perceive high-level confirmation of their values and acceptance to this company-initiated virtual community, which facilitates the formation of CCID. Starbucks, with the invitations for exploration experience, also has collected more than 200,000 ideas of product, experience, and involvement from customers by July 2015.

Another avenue of future research is exploring loyalty program factors that may adversely affect CCID formation. As theoretically argued and empirically supported here, loyalty program can be leveraged to establish and maintain CCID. This conclusion however, might be challenged in loyalty programs with different strategic positioning and portfolios of benefits. Non-financial benefits make unique contribution to CCID formation. However, in a loyalty program where only short-term financial benefits are offered, its role of building strong long-term customer-company relationship may be neglected. Future research should investigate the formation of CCID in loyalty programs which offer short-term financial benefits. Although the exclusivity of loyalty program benefits can increase customer perception of status and belongingness at a high-level of membership, it may induce the feeling of unfairness among members at a lower level. The net effects of the exclusivity of non-financial benefits on CCID warrants further study.

This study also has important limitations that represent opportunities for research. First, the proposed model omits specific loyalty program attributes, customer characteristics, and industrial characteristics. Further research could treat these factors as potential moderators of the current model, which might serve as contingent factors that determine the relationship between customer feelings of status and customer identification. Second, the cross-sectional nature of the data limits the ability to show causation in the conceptual model. Additional research could test the proposed model with an experimental or longitudinal design to address methodological limitations.

Appendix 1. Selected studies on the drivers of customer–company identification

Study	Research setting or levers of CCID	Antecedent variables	Consequent variables
Bhattacharya and Sen (2003)	–	Identity attractiveness	Company loyalty; company promotion; customer recruitment; resilience to negative information; stronger claim on company
Ahearne et al. (2005)	Pharmaceutical industry	External image of the company; perceived salesperson characteristics; perceived company characteristics	Customer extra role behaviors; customer product utilization
Curras-Pérez, Bigne-Alcaniz, and Alvarado-Herrera (2009)	CSR	Brand attractiveness	Brand attitude; purchase intention
Homburg et al. (2009)	German travel agencies	Employee–company identification; customer orientation	Customer loyalty; customer willingness to pay
Hong and Yang (2009)	Starbucks Coffee company and Apple, Inc.	Reputation; relational satisfaction	Positive word-of-mouth intentions
Lichtenstein, Netemeyer, and Maxham (2010)	Women's apparel retailer	Employee organizational identification	Percent change in average annual customer spending
Pérez, Salmones, and Bosque (2010)	Financial services	CSR	Loyalty satisfaction
Karaosmanoglu, Bas, and Zhang (2011)	Fast food service and an automotive company	Similarity with other customers; emotional attachment	Customer extra-role behaviors
Bagozzi et al. (2012)	Ducati motorcycles brand community	Consumer-brand identification	Resilience to negative information; social promotion; action promotion; participation intentions
Curras-Pérez (2012)	CSR	CSR identity	Company attitude; company commitment; purchase intent
Lee, Park, Rapert, and Newman (2012)	CSR	Consumer perception of CSR activities	Consumer loyalty
Lii and Lee (2012)	CSR	CSR initiatives	Brand attitude; extra-role behavior; in-role behavior
Netemeyer et al. (2012)	Women's apparel retailer	Employee organizational identification; customer perceived employee similarity	Total annual customer spending
Homburg, Stierl, and Bomemann (2013)	CSR	Philanthropic CSR; reputation; trust	Customer loyalty
Marín and de Maya (2013)	Financial institution	Need for affiliation; identity attractiveness; personal connection with the salesperson	–
Romani, Grappi, and Bagozzi (2013)	CSR	CSR activity	Positive word of mouth; advocacy behaviors
Oberseder, Schlegelmilch, Murphy, and Gruber (2014)	CSR	Consumers' perceptions of CSR	Purchase intention
Pérez and Bosque (2014)	Financial service	CSR image	Emotions evoked by the company; emotions evoked by the service
Romani and Grappi (2014)	CSR	CSR activity	Volunteering
Siu, Zhang, and Kwan (2014)	CSR	Cause attribution; CSR perception	Post-recovery satisfaction
Swimberghe and Wooldridge (2014)	CSR	CSR associations	Customer loyalty
Tsai, Joe, Lin, Chiu, and Shen (2015)	Telecommunication company	Corporate citizenship	Purchase intention
Tung, Liang, and Chen (2014)	Financial services	Service orientation; interaction orientation	–
Kang, Brashear, and Groza (2015)	Loyalty program	Social benefits; program loyalty	Company loyalty

Appendix 2. Measurement items

	Standardized loading	α	ρ	AVE
Personal recognition		.83	.90	.75
I am recognized by certain employees through this program.	.87			
I know some employees through this program.	.91			
I know some new friends through this program.	.81			
Preferential treatment		.84	.89	.68
I am treated better than other customers.	.87			
I am treated with more respect than other customers.	.88			
I feel I am more distinguished than other customers.	.86			
I am often invited to attend social or entertainment events.	.67			
Exploration experience		.90	.94	.84
I discover new products through my membership in this loyalty program.	.93			
I discover products I wouldn't have discovered otherwise through my membership in this loyalty program.	.92			
I try new products through my membership in this loyalty program.	.90			
Feeling of status		.80	.88	.71
This loyalty program makes me feel special.	.87			
I attain a high degree of status from being a member of this loyalty program.	.90			
It is difficult for other members to earn the same status I have in this program.	.75			
Belongingness		.85	.91	.77
I belong to a community of people who share the same values through my membership in this loyalty program.	.85			
I feel close to the company through my membership in this loyalty program.	.88			
I feel I share the same values as the company through my membership in this loyalty program.	.91			
CCID		.85	.91	.77
I feel good to be a customer of this company.	.89			
I like to tell others that I am a customer of this company.	.87			
This company fits me well.	.86			

(continued on next page)

Appendix 2 (continued)

	Standardized loading	α	ρ	AVE
Financial benefits		.70	.81	.52
I think the proposed rewards from this loyalty program are what I expected.	.66			
I think I get better prices than customers not in the program.	.64			
I feel that I am getting a good deal by being a member of the program.	.71			
The deals in this loyalty program meet my expectations of ideal deals from this program	.84			

Note: α = Cronbach's alpha, ρ = composite reliability.

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