Customer–company identification and the effectiveness of loyalty programs

Jun Kang [a], Thomas Brashear Alejandro [b,*,1], Mark D. Groza [c]

[a] Business School, Hunan University, 11 Lushan Nan Lu, Changsha, Hunan, PR China
[b] Eugene M. Isenberg School of Management, University of Massachusetts Amherst, 121 Presidents Drive, Amherst, MA, United States
[c] Northern Illinois University, Department of Marketing, 128 Barsema Hall, DeKalb, IL, United States

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ABSTRACT

Customer loyalty programs constitute an important customer relationship management tool, adopted by multiple industries. This study investigates how customers perceive benefits from a loyalty program that enhance their loyalty to that program directly, as well as to the company indirectly through program loyalty. Our findings show that program loyalty and customer–company identification enhance customer loyalty toward the company. The development of customer–company identification can transform program loyalty into company loyalty, and reduce the company's latent financial risk.

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1. Introduction

Cultivating customer loyalty is one of the key goals of relationship marketing (Palmatier, Dant, Grewal, & Evans, 2006). Firms in various industries adopt customer loyalty programs to encourage customer relationships (Kivetz & Simonson, 2002; Nunes & Drèze, 2006). Between 2007 and 2009, enrollment in U.S. loyalty reward programs increased 38%, reaching 1.8 billion memberships (Mintel, 2010). By 2012, approximately 2.65 billion loyalty program memberships were held by U.S. consumers (Berry, 2013), and 42% indicated that they used loyalty programs much more for their purchases than in 2008 (Mintel, 2013). In 2005, more than 50% of European consumers belonged to at least one grocery loyalty program (ACNielsen, 2005); by 2010, this level reached 90% (Meyer-Waarden, 2011). In Canada, 92% of consumers enroll in at least one loyalty program, with an average of 6.4 cards each (Maritz, 2012) and in Brazil, 33% of upper- and middle-income consumers (approximately 20 million) maintain loyalty program memberships (Hlavinka & Sullivan, 2012). Despite the popularity of loyalty programs, their effectiveness may be questionable in terms of profitability (e.g., see Gandomi & Zolfaghari, 2013; Shugan, 2005) and enhancing customer loyalty (e.g., Leenheer, van Heerde, Bijmolt, & Smidts, 2007; O'Brien & Jones, 1995; Wagner, Hennig-Thurau, & Rudolph, 2009).

Specifically with regard to customer loyalty programs, there are distinct forms of loyalty. Yi and Jeon (2003) focus on program loyalty and brand loyalty while Suh and Yi (2012) test the relationships between program loyalty (hedonic and utilitarian) and online store loyalty. Work by Evanschitzky et al. (2012) distinguishes two facets of customer loyalty: loyalty to the program itself or loyalty to the company. Similarly, Dorotic, Bijmolt, and Verhoef (2012) summarize research in loyalty programs and find that loyalty programs develop distinct attitudes toward the programs themselves and to the firm. In this study, we examine two forms of loyalty: program loyalty and company loyalty. Program loyalty implies "a high relative attitude leaning toward the loyalty program" (Yi & Jeon, 2003, p. 232), whereas company loyalty refers to the "intention to perform a diverse set of behaviors that signal a motivation to maintain a relationship with the focal firm" (Sirdeshmukh, Singh, & Sabol, 2002, p. 20). Program loyalty is economic and transactional in nature, whereas company loyalty is an emotionally driven, relational form (Evanschitzky et al., 2012).

A loyalty program likely generates customer loyalty to the company directly or indirectly through loyalty to the program, contingent on the buying situation (Yi & Jeon, 2003). Recent studies explore the antecedents and consequences of both types of customer loyalties, and although customers' perceptions of the value of program benefits drive both loyalties, the relative effects of financial and nonfinancial program benefits on program loyalty and company loyalty differ (Kim, Lee, Choi, Wu, & Johnson, 2013; Yi & Jeon, 2003). Moreover, program loyalty is a key link between program benefits and company loyalty (Suh & Yi, 2012). However, the evolution from program loyalty to company loyalty is not spontaneous but rather arises only among highly involved customers (Dowling & Uncles, 1997).

In terms of loyalty program performance outcomes, both company and program loyalties enhance favorable consumer behaviors; program

* Corresponding author. Tel.: +1 413 835 5666; fax: +1 413 545 3858.
  E-mail addresses: junkang@hnu.edu.cn (J. Kang), brashear@isenberg.umass.edu (T.B. Alejandro), mgroza@niu.edu (M.D. Groza).
  [1] Visiting Professor at Pontificia Universidade Católica do Parana, Brazil.

loyalty often leads to actual purchases, and company loyalty enhances customers' attitudinal responses (Evanschitzky et al., 2012). Yet customer loyalty managers also must identify the dark side of program loyalty, which creates latent risk in addition to the potential benefits for a company (Palmatier, Scheer, & Steenkamp, 2007). Latent financial risk in this study refers to the potential negative financial effects of a customer leaving the company due to their loyalties to a loyalty program. Customers who are only loyal to a program may switch to a competitor's program that offers more attractive benefits. Or, latent risks arise when changes in a program's overall benefits may cause customer dissatisfaction or defection. For example, Wagner et al. (2009) find that company loyalty is adversely affected when there is a reduction in loyalty program member status.

To offset negative effects or latent risk due to program loyalty firms may focus on stronger affective or emotional bonds with customers, such as through the social aspects of a program, including a feeling of community (Rosenbaum, Ostrom, & Kuntze, 2005) or heightened perceptions of overall value (Bolton, Kannan, & Bramlett, 2000). Customer–company identification (CCID) is an affective and sociological foundation for developing enduring customer–company relationships and customer loyalty (Bagozzi, Bergami, Marzocchi, & Morandin, 2012; Homburg, Wieseke, & Hoyer, 2009). As external stakeholders, customers build attachments and identify with companies through multiple interactions (Hughes & Ahearne, 2010; Lam, Ahearne, Hu, & Schillewaert, 2010). When customers become loyal to a loyalty program, their overall identification with the company may also increase, as such loyalty programs would lead to stronger identification and prompt customers to build stronger ties (loyalty) to the company.

To test these predictions, the present study examines the transformation from program loyalty to company loyalty and the related performance implications. This research seeks to clarify the effectiveness of loyalty programs by decomposing customer loyalty into distinct consequences as suggested by Yi and Jeon (2003), from the perspective that customers can develop loyalties to either the company or its program. With its sociological perspective, this research also explores how CCID affects the transition. Drawing on existing research on loyalty programs, company loyalty, and CCID, the present study thus extends understanding of the distinct effects of loyalty programs. Specifically, the authors consider the effects of program loyalty on both share of wallet and latent risk, as well as on CCID and company loyalty. The link of CCID to company loyalty introduces a new antecedent of company loyalty. This study also addresses the connection between company loyalty and latent risk.

To begin, the next section provides an overview of loyalty programs, customer loyalty, and CCID, followed by the theoretically grounded research hypotheses in Section 3. Section 4 includes an overview of the study methodology, including measures and data analysis. The results and a broad discussion of the findings and implications appear in Section 5. Section 6 concludes with some limitations and suggestions for further research.

2. Theoretical background

2.1. Loyalty programs and customer loyalty

A loyalty program is an integrated system of marketing actions that aims to reward and encourage customers' loyal behavior through incentives (Leenheer et al., 2007; Sharp & Sharp, 1997). These programs typically allow customers to accumulate and redeem free rewards by purchasing repeatedly from a company (Liu, 2007). Loyalty programs may provide customers cash value, a choice of redemption options, aspirational value, relevance, or convenience benefits (O'Brien & Jones, 1995). For the company, loyalty programs help build or maintain close relationships with customers and increase sales revenues by encouraging repeat purchases (Uncles, Dowling, & Hammond, 2003).

The success of loyalty programs in encouraging repurchase varies. Sharp and Sharp (1997) evaluate a large loyalty program's effectiveness in building "excess loyalty" (i.e., unusually high repeat purchases), beyond the level exhibited due to brand loyalty. Their findings show a slightly improved level of brand loyalty but inconsistent effects across the six brands that they study. Meyer-Waarden and Benavent (2006) find that three of the six investigated stores increase purchase frequency through loyalty programs, but the overall market structures do not change substantially. Thus, other factors might predict loyalty.

Although generally defined as "a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future" (Oliver, 1999, p. 34), customer loyalty can refer to different targets (Palmatier et al., 2007). For example, a program might induce customer loyalty to the program or to the company sponsoring that program (Bolton et al., 2000; Dowling & Uncles, 1997; Yi & Jeon, 2003). Customers loyal to a program do not necessarily develop loyalty to the company (Evanschitzky et al., 2012).

Companies expect loyalty programs to increase their share of customers' wallets (Evanschitzky et al., 2012; Meyer-Waarden, 2007), that is, the share of consumer spending (measured as purchases or volume) allocated to a specific brand, store (Mägi, 2003), or chain (Leenheer et al., 2007). Mägi (2003) finds mixed effects of loyalty cards on shares of purchases and visits, and only at the chain level or when customers hold only the focal chain's loyalty card. When consumers hold loyalty cards from competing chains, the effects likely cancel out. Leenheer et al.'s (2007) investigation instead shows that loyalty programs have positive effects on customers' share of wallet, though these effects get mitigated if membership serves as an endogenous element. Loyal shoppers also are the most likely consumers to use a loyalty program, so their subsequent purchase behavior does not increase substantially, and exogenous factors may affect the share of wallet (see also Wirtz, Mattila, & Lwin, 2007). In a review of findings from 12 studies, Meyer-Waarden (2008) cites inconclusive findings, though these reviewed studies focus primarily on grocery settings or specific products. Broad market panel data show significant effects of loyalty programs on consumer behaviors, including larger total baskets, lower switching, and more store visits (Meyer-Waarden, 2008). Overall, prior literature highlights the need for research into other exogenous factors, beyond just loyalty program participation, that might affect the share of wallet or other consumer behaviors (Sharp & Sharp, 1997).

Theoretically, loyalty programs drive habit-, status-, and relationship-based customer loyalty through several mechanisms (Henderson, Beck, & Palmatier, 2011). Economic and psychological mechanisms, such as financial value, switching costs, feelings of superiority, and brand association, suggest that loyalty programs can enhance habit- and status-based customer loyalty (Drèze & Nunes, 2009; Kim, Shi, & Srinivasan, 2001; Roehm, Pullins, & Roehm, 2002). Research also points to CCID as an effective sociological mechanism through which loyalty programs can build and maintain relationship-based customer loyalty (Leenheer et al., 2007).

2.2. Customer–company identification

Social identity theory suggests that people articulate a sense of self (i.e., self-concepts) by developing a social identity (Tajfel & Turner, 1986). Membership in various social categories (e.g., gender, ethnicity, occupation) and associations with various organizations are important sources of social identity. Organizational identification occurs when a person perceives a sense of connectedness with an organization and begins to define the self in terms of the organization (Mael & Ashforth, 1992). Just as organizational members (e.g., employees) can identify with companies, so too can customers, in the form of CCID (Bhattacharya & Sen, 2003). Customers use company identities to define themselves socially (Bhattacharya, Rao, & Glynn, 1995). For example, customers who identify with Ben & Jerry's may say, "Ben & Jerry's is socially responsible, I am socially responsible, so I would like to keep buying from it" (Lichtenstein, Netemeyer, & Maxham, 2010). Customers also may develop cognitive

perceptions of belongingness and use the company to satisfy self-definitional needs (Bhattacharya & Sen, 2003). A customer who strongly identifies with Apple computers for example uses elements of Apple's identity to help define the self (Homburg et al., 2009). In general, people desire to maintain a positive sense of self (Tajfel & Turner, 1986) and thus seek to identify with companies that appear to have desirable attributes.

To enhance these levels of identification, firms must work to engage organizational stakeholders and increase the visibility of desirable organizational attributes (Dutton, Dukerich, & Harquail, 1994). Recent studies suggest that CCID is a key means to develop relationships with customers and customer loyalty (Bagozzi et al., 2012; Homburg et al., 2009). Customers who find program benefits satisfactory develop more program loyalty and keep using the program. With greater interactions, customers recognize their membership, which is a favorable condition for CCID formation (Bhattacharya & Sen, 2003; Bhattacharya et al., 1995). As an underlying sociological mechanism, CCID thus might encourage customers to stay close to a focal company, in the belief that such behavior also supports self-identities, which should result in higher company loyalty (Ahearne, Bhattacharya, & Gruen, 2005; Leenheer et al., 2007). That is, CCID should facilitate the transition from program loyalty to company loyalty.

2.3. Conceptual model

The conceptual model and research hypotheses seen in Fig. 1, follow a loyalty formation framework used in prior research literature (e.g., Suh & Yi, 2012; Yi & Jeon, 2003). Within this structure, composed of program value, program loyalty, and company loyalty, the present study focuses on the effects of financial and social benefits on program loyalty and thus company loyalty. In loyalty programs, customers tend to develop relationship-based loyalty to the company only if the loyalty program is beneficial and the customers have favorable attitudes toward the program (Hu, Huang, & Chen, 2010). According to this process, CCID is a sociological driver of relationship-based loyalty and thus provides a potential link between program loyalty and company loyalty. In addition, program loyalty and company loyalty function differently for customer loyalty management (Evanschitzky et al., 2012); customer loyalty to a program rather than to the company represents a double-edged sword (Palmatier et al., 2007). To assess both positive and negative consequences of customer loyalties, this study includes both customer share of wallet and latent financial risk.

3. Hypotheses

3.1. Building program loyalty

A company devises loyalty programs to influence customers' perceptions of status, buying habits, and relationship with the company and thus encourage greater customer loyalty (Henderson et al., 2011). Thus loyalty programs feature financial benefits (Bolton, Lemon, &

Verhoef, 2004), such as customer discounts, cash-back offers, and coupons (Mimouni-Chaabane & Volle, 2010). Customers also attain social benefits, such as fraternization, development of friendships, and personal recognition, from participating (Gwinner, Gremler, & Bitner, 1998). The sense of community created by loyalty programs gives customers a feeling of belonging, a sense of importance and integration, and a means to fulfill emotional needs (McMillan & Chavis, 1986). These social bonds are difficult to duplicate and likely prompt customers to maintain their relationships. Moreover, customers' perceptions of value increase loyalty to relational exchanges (Sirdeshmukh et al., 2002; Yi & Jeon, 2003). The perceived usefulness of loyalty programs, in both financial and social terms, should increase customer loyalty to the programs (Meyer-Waarden, 2007). Therefore,

H1. The financial benefits a loyalty program offers relate positively to program loyalty.

H2. The social benefits a loyalty program offers relate positively to program loyalty.

3.2. Building company loyalty

By joining a loyalty program, customers become part of a more or less exclusive group of privileged customers, identify with this group, and likely share associated values (Muniz & O'Guinn, 2001). Perceptions of membership encourage CCID formation (Bhattacharya et al., 1995; Rosenbaum et al., 2005). Customers who are loyal to a program tend to develop more embedded relationships with the sponsoring company. More frequent interactions enhance a customer's perception of being an "insider" and reinvigorating their social identity (Ahearne et al., 2005; Bhattacharya et al., 1995). Customers engaged in loyalty programs also can access information from and interact directly with the company (Bolton et al., 2000). Then as program loyalty increases, customers may grow relatively immune to negative, external information about the company (Bolton et al., 2000). With exposures only to positive, identity-related information, consumers come to regard the attributes of the company as more attractive and salient. Attractiveness and salience (i.e., ease of retrieving core attributes) influence CCID (Bhattacharya & Sen, 2003). Therefore, a positive relationship should emerge between program loyalty and CCID.

H3. Program loyalty relates positively to customer–company identification.

Previous research also suggests that greater participation induces more loyalty to a program and to the company (e.g., Bolton et al., 2000; Dowling & Uncles, 1997). In this sense, program loyalty may represent a stage in the process by which customers develop company loyalty (Kim et al., 2013). Customers who develop company loyalty generally are attracted by the loyalty program and its benefits (Hu et al., 2010). Yi and Jeon (2003) affirm that company loyalty results from program loyalty in high involvement conditions. This positive relationship between program loyalty and company loyalty is consistent whether customers express hedonic or utilitarian views of loyalty (Suh & Yi, 2012). Thus,

H4. Program loyalty relates positively to company loyalty.

Customers who identify strongly with the company become psychologically attached, identifying the goals and successes of the company as their own (Bhattacharya & Sen, 2003). In this sense, CCID leads customers to develop long-term preferences for products or services provided by self-identified companies. Customers support companies with repeated patronage (Bhattacharya & Sen, 2003). Moreover, company-identified customers tend to stay loyal to that company, reflecting a desire to express a consistent social identity (Dutton et al., 1994); express more positive evaluations of the company; and persist in a long-term
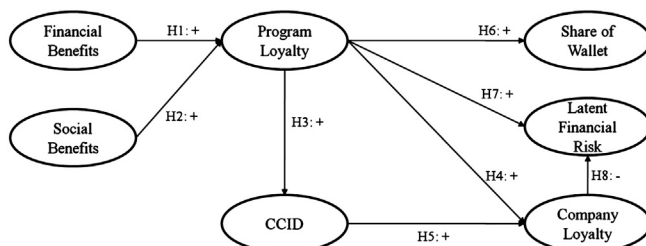

Fig. 1. Conceptual model.

relationship with the company (Lee, Park, Rapert, & Newman, 2011). Accordingly,

H5. Customer–company identification relates positively to company loyalty.

3.3. Consequences of program and company loyalty

For this study, share of wallet refers to the share of category expenditures spent on purchases through a certain loyalty program (Leenheer et al., 2007). This behavioral consequence offers a proxy for behavioral loyalty (Wirtz et al., 2007), influenced by customer program loyalty (Evanschitzky et al., 2012). Customers with high program loyalty express positive feelings toward the program, which implies higher repurchase levels and share of wallet (Taylor & Neslin, 2005). Moreover, program loyalty indicates customer satisfaction and increased psychological switching costs, so customers should be less inclined to visit competitors and more likely to spend more with the current loyalty program (Leenheer et al., 2007; Meyer-Waarden, 2008). Customers attracted by loyalty programs tend to increase their share of wallet regardless of their psychological attachment to the company (Wirtz et al., 2007). Thus,

H6. Program loyalty relates positively to share of wallet.

A company's latent financial risk refers to the negative firm consequences of discontinuing a loyalty program (Palmatier et al., 2007). At the micro-level, latent financial risk reflects how a current member of a loyalty program behaves in response to the termination of a loyalty program, assuming competitors offer similar programs. Changes in corporate marketing strategies and financial pressures might force managers to modify, revamp, or discontinue loyalty programs (Capizzi & Ferguson, 2005; Kumar & Shah, 2004); the responses of program members to such changes represent an important substantive question that has not received adequate research attention. When a loyalty program ends or the benefits change, customers with high program loyalty may exhibit a greater propensity to leave the company, because program loyalty depends fully on the level of benefits received from the program (Evanschitzky et al., 2012; Yi & Jeon, 2003). Wagner et al. (2009) also find that changes in program status and benefits reduce loyalty intentions, particularly for members with higher status; that is, program members who previously received higher benefits express more negative responses to benefit and reward changes. Thus, program-loyal customers imply a greater latent financial risk for the firm, because of their greater switching potential if a loyalty program ends or benefits change.

In contrast, customers that are loyal to the company commit to buying repeatedly from that firm (Homburg et al., 2009), because their emotionally based form of loyalty stems from the overall relationship quality with the company (Chaudhuri & Holbrook, 2001; Evanschitzky et al., 2012). When customers achieve company loyalty, their sense of affiliation with the company diminishes the possibility that they will leave or switch solely because of lost financial benefits or changes to the loyalty program (Evanschitzky et al., 2012). Company loyalty, compared with program loyalty, implies greater attachment and identification with the company (Hughes & Ahearne, 2010; Lam et al., 2010). Moreover, high levels of company loyalty suggest commitment to the firm and a willingness to "sell the firm" to others (Reinartz & Kumar, 2002). Such company loyalty also creates a strong commitment (Becker, 1960), such that loyal customers' actions relate closely to the company and are unlikely to change (Meyer & Allen, 1984). Therefore, program loyalty should increase latent financial risk, whereas company loyalty should lower latent financial risk for the company. Accordingly,

H7. Program loyalty relates positively to company latent financial risk.

H8. Company loyalty relates negatively to company latent financial risk.

4. Methodology

4.1. Sample

The data was gathered from an online panel of loyalty program participants. For this exploration of distinct loyalty behaviors, a snowball convenience sampling technique identified the online panel. Convenience samples are well-established in loyalty studies (e.g., Liu & Yang, 2009) and provide a reasonable means to access particular communities without invoking substantial resource limitations (Lee & Tan, 2003). The authors also qualified the panel of participants by ensuring each member's participation in at least one loyalty program and role as a key purchase decision maker. The final sample consists of 573 consumers, 49% of whom were women, with an average age of 29 years, comparable to samples in previous studies of customer loyalty (Balabanis, Reynolds, & Simintiras, 2006; Kwon & Lennon, 2009) and CCID (Lee et al., 2011). At the beginning of the survey, respondents noted a loyalty program in which they were members; the instructions indicated that respondents should keep that selected loyalty program in mind throughout the survey. The chosen programs reflected a wide range of product and service categories, including grocery (22%), drug stores (18%), auto and gas (14%), travel and hotel (12%), clothing and make up (8%), credit cards (6%), food (5%), electronics (5%), books (3%), entertainment (3%), and other categories (less than 1% for each).

4.2. Measures

This study used established measures with five-point Likert type scales (1 = "strongly disagree," 5 = "strongly agree"), unless otherwise noted. The measurement items, factor loadings, psychometric properties, and sources appear in Appendix 1. Respondents reported their perceptions of the financial and social benefits earned through the loyalty program, according to several common loyalty program characteristics. To assess perceived financial benefits, the survey included rewards, prices, and overall financial value (Palmatier, Gopalakrishna, & Houston, 2006) ($\alpha = .71$). For perceived social benefits, this study measured personal recognition, customer familiarity with employees, and development of friendship (Gwinner et al., 1998) ($\alpha = .83$).

To avoid confusing program loyalty questions with company loyalty questions, each measurement item clearly referenced either the program or the company. The measure of program loyalty used a three-item scale from Yi and Jeon (2003) ($\alpha = .83$). Company loyalty relied on three items adapted from Palmatier et al. (2007) ($\alpha = .87$). The measure of CCID adapted three items from Homburg et al.'s (2009) study ($\alpha = .84$). Share of wallet reflected the percentage of future purchases the respondent planned to make through the current loyalty program, according to a ratio scale (Meyer-Waarden, 2008). The standardized value of this ratio appeared in the model estimation, to account for the various product and service categories. Finally, the measure of latent financial risk used another ratio scale, indicating the percentage of a respondent's purchases that would shift if a loyalty program ended (Palmatier et al., 2007).

4.3. Analysis

The tests of the research hypotheses used partial least squares structural equation modeling (PLS-SEM; Fornell & Cha, 1994) with SmartPLS 2.0 (Ringle, Wende, & Will, 2005). The PLS-SEM method is appropriate, considering the nature and sample size of this study (Hair, Sarstedt, Ringle, & Mena, 2012). In PLS-SEM, model evaluations use R-square values for the dependent constructs and the effect size, significance level, and t-values of the structural path coefficients (Fornell & Cha, 1994). The estimates of standard errors and t-values came from a bootstrap resampling procedure (Chin, 1998).

5. Results

5.1. Measurement validation

The construct reliability, convergent validity, and discriminant validity tests applied to all constructs with multi-item scales. The psychometric properties of each latent construct are presented in Appendix 1 and their intercorrelations in Table 1. The results indicate sufficient reliability and validity. All Cronbach's alpha values (α) and composite reliabilities (ρ) were above .70, in support of the reliability of the multi-item scales (Bagozzi & Yi, 1988). All average variance extracted (AVE) values were greater than .50, and the AVE for each construct was greater than the squared correlation with any other construct, indicating sufficient convergent and discriminant validity (Fornell & Larcker, 1981).

The test of potential common method bias added a single, unmeasured, latent method variable in the structural model analysis (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). After the reestimation of the structural model, a comparison revealed that the path coefficients remained significant (see Appendix 2). Thus common method bias did not appear to represent a serious issue for this study.

5.2. Structural model and hypothesis testing

The results confirm the hypotheses. Table 2 contains the estimated path coefficients, t-values, and R-square values of each dependent construct. In particular, standardized path coefficients of .56 for H_1 and .16 for H_2 affirm the positive relationships among financial benefits, social benefits, and program loyalty. The anticipated positive relationship between program loyalty and CCID (H_3) also receives support ($\gamma = .57$, $p < .01$). Both program loyalty ($\gamma = .31$, $p < .01$) and CCID ($\gamma = .53$, $p < .01$) relate positively to company loyalty, in support of H_4 and H_5, respectively. The results confirm H_6, which predicted a positive effect on program loyalty on customer share of wallet ($\gamma = .19$, $p < .01$). Finally, in support of H_7 and H_8, program loyalty has a positive influence ($\gamma = .16$, $p < .01$), whereas company loyalty exerts a negative impact ($\gamma = -.14$, $p < .01$) on company latent financial risk. Taken together, the total effect of program loyalty on company latent financial risk is positive but not significant ($\gamma = .08$, $p < .10$). The explanatory power of the model is reasonably high, with R-square values for program loyalty = .34, company loyalty = .55, CCID = .32, company latent financial risk = .02, and share of wallet = .04.

5.3. Mediation tests

A follow-up analysis explored the mediating role of program loyalty and CCID by comparing nested models that included direct effect paths (Zhao, Lynch, & Chen, 2010). The F-test of the differences between models indicates whether the R-square of each dependent construct shows significant change (Cohen, Cohen, West, & Aiken, 2003). The results show that program loyalty and CCID fully mediate the effects of financial and social benefits on company loyalty; the direct effects of financial benefits (F = .13) and social benefits (F = .06) on company loyalty are not significant. Program loyalty fully mediates the effects of financial benefits (F = 2.69) but only partially mediates those of social benefits ($\gamma = .22$, $p < .01$; F = 19.70) on CCID. Furthermore, the direct effect of program loyalty (F = 41.45) on company loyalty is significant, indicating partial mediation by CCID in this relationship. The final model in Fig. 2 therefore includes the direct path from social benefits to CCID.

6. Discussion

Decoupling program and company loyalty help reveal the effectiveness of loyalty programs, in terms of building and sustaining effective customer loyalty. Loyalty programs contribute to customers' company loyalty and program loyalty, consistent with findings by Yi and Jeon (2003). Specifically, customers' perceptions of the values and benefits available through participation in loyalty programs elicit loyalty toward the program, which in turn boosts loyalty to the company.

However, two barriers can hinder this process. First, program loyalty can be a double-edged sword, with both negative and positive consequences. Greater program loyalty can increase the company's latent financial risk; company loyalty reduces that risk. Transforming program-loyal customers into company-loyal customers thus can mitigate the negative effects of program-specific loyalty. Second, identification emerges as an important sociological mechanism for managing customer loyalty programs; neglecting the role of CCID may lead to incomplete or biased evaluations of loyalty programs.

Another interesting finding pertains to the direct effect of social benefits on CCID, as uncovered in the supplementary analysis. Perceived financial and social benefits both contribute to company loyalty through CCID. Program loyalty fully mediates the effects of financial benefits but only partially mediates the effects of social benefits on CCID. Therefore, the social benefits of loyalty programs may enhance CCID directly, and developing and highlighting these social benefits could be a useful way to enhance the overall effectiveness of loyalty programs.

This study contributes to loyalty program literature by empirically examining how sociological mechanisms (e.g., CCID) work within loyalty programs to explain the dynamic relationship between program loyalty and company loyalty. Beyond traditional behavioral measures, CCID and company latent financial risk offer alternative assessments of effectiveness. In summary, this study is among the first to demonstrate empirically the important role of CCID for managing customer loyalty programs.

Table 1
Descriptive statistics and correlations (N = 573).

Construct	Mean	SD	1	2	3	4	5	6	7
1. Financial benefits	4.02	.58	.73						
2. Social benefits	2.27	.96	−.01	.85					
3. Program loyalty	3.77	.71	52a	.15a	.87				
4. Customer–company identification	3.62	.76	.35a	.27a	.56a	.87			
5. Company loyalty	3.73	.72	.35a	.18a	.60a	.70a	.89		
6. Customer share of wallet	.63	.28	.25a	.03	.19a	.13a	.22a	–	
7. Company latent financial risk	.50	.31	.15a	.01	.08	.02	−.04	.21a	–

Off-diagonal entries are correlations among constructs. On the diagonal are the square root of the AVEs.
a = $p < .01$.

Table 2
Structural model coefficients.

		Initial model			Final model		
		Coefficient	t-Value	R^2	Coefficient	t-Value	R^2
H_1	Financial benefits → program loyalty	.56	14.66[*]		.56	14.76[*]	
H_2	Social benefits → program loyalty	.16	4.91[*]	.34	.16	4.59[*]	.33
H_3	Program loyalty → CCID	.57	16.58[*]	.32	.53	15.33[*]	
H_4	Program loyalty → company loyalty	.31	7.41[*]		.31	7.41[*]	
H_5	CCID → company loyalty	.53	13.2[*]	.55	.52	13.19[*]	.55
H_6	Program loyalty → share of wallet	.19	4.36[*]	.04	.19	4.40[*]	.04
H_7	Program loyalty → company latent financial risk	.16	2.97[*]		.16	2.88[*]	
H_8	Company loyalty → company latent financial risk	−.14	−2.44[*]	.02	−.14	−2.35[*]	.02
	Social benefits → CCID	–	–	–	.22	6.44[*]	.36

Notes: The t-value estimations used the bootstrap resampling procedure in SmartPLS (573 cases and 5000 runs).

[*] $p < .01$.

6.1. Managerial implications

Managers must account for relationship-building aspects (i.e., CCID) in their customer loyalty programs. Customers can develop strong identification with a company when they are enrolled in company-sponsored loyalty programs. When CCID forms, customers exhibit more loyalty to the company. Company loyalty can attenuate the potential latent financial risks caused by loyalty programs. Therefore, managers should use the following suggestions to design and evaluate loyalty programs.

Expanding social reward offers can build company loyalty. Most successful loyalty programs include pleasure-providing, rather than functional, rewards to elicit pleasant associations (Kivetz & Simonson, 2002; Nunes & Drèze, 2006). Favorable feelings and emotions also match the hedonic element of CCID, which boosts company loyalty (Edwards, 2005). Through a loyalty program, a company can express an attractive core identity (Bhattacharya & Sen, 2003), such that the loyalty program provides a mechanism to communicate the company's core values and defining characteristics. Increasing the salience of a company's defining characteristics should enhance the potential for CCID and increase customer loyalty.

Balancing financial and social benefits is another important measure of loyalty programs' effectiveness for building company loyalty. Managers should make social benefits more visible, because of their direct, positive influence on CCID; financial benefits based on price paradoxically might lead to greater disloyalty (Nunes & Drèze, 2006). By distinguishing program loyalty from company loyalty, managers can better evaluate the role of loyalty programs and avoid overestimating the effects. Company loyalty is unlikely to result from an add-on customer loyalty program; rather, the programs can help retain customers who already exhibit some loyalty to the company (Dowling & Uncles, 1997). Yet managers also should avoid underestimating the effectiveness of loyalty programs for CCID. Enhancing CCID also leads to positive consequences, such as customer recruitment, resilience to negative information, and firm-level financial performance (Bhattacharya & Sen, 2003; Lichtenstein et al., 2010).

6.2. Limitations and further research

Examining the role of CCID in loyalty programs represents an initial step to exploring the dynamic relationship of program loyalty with company loyalty. Specifically, CCID is a key sociological mechanism that reveals how loyalty programs help increase customer loyalty. Additional research should go into greater depth to clarify the transformation from program loyalty to company loyalty by integrating economic, psychological, and sociological mechanisms.

Researchers also should continue to examine other, extended loyalty program performance measures. This study shows that program loyalty and company loyalty can reflect the effectiveness of loyalty programs and confirms the role of CCID, which may produce other performance outcomes. Berman (2006) suggests that loyalty program success measures should integrate multiple outcomes, beyond sales. Emphasizing only behavioral loyalty similarly limits understanding of the contributions of loyalty programs (Kumar & Shah, 2004). Company latent financial risk is one complement; further research should continue to develop economic, psychological, and sociological metrics to assess the effectiveness of loyalty programs.

Regarding sociological mechanisms, more research could focus on additional mediators to reveal how loyalty programs work. Social benefits have clear, direct effects on CCID, which implies that program loyalty cannot account for all the effects of social benefits in loyalty programs. Similarly, the transformation from program to company loyalty warrants more investigations that explore meaningful potential mediators of the effects of social benefits on CCID and of program loyalty on company loyalty.

Finally, several limitations suggest additional opportunities for research. First, the proposed model omits specific loyalty program information (i.e., program attributes), customer socioeconomic characteristics, or market competition. But both customer and loyalty program characteristics are heterogonous, so researchers should investigate these potential moderators. Second, the survey design and cross-sectional nature of the data prevent any assessment of causation. Additional research should test the proposed model using other designs, such as experiments or longitudinal surveys, to account for self-selection into loyalty programs and other methodological limitations. Third, this study only examines financial and social benefits perceived through loyalty programs. Other components of perceived benefits, such as hedonic and symbolic benefits, might reveal other potential roles of loyalty programs.
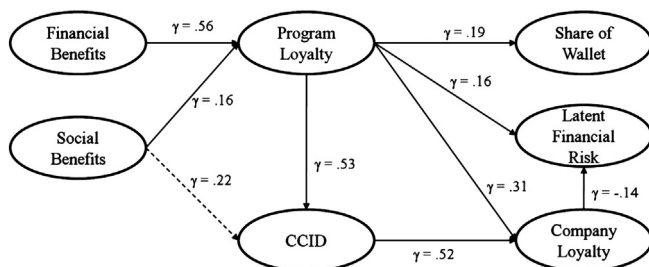

Fig. 2. Final model.

Appendix 1. Measurement items

	Standardized loading	α	ρ	AVE
Financial benefits		.71	.82	.53
I think the proposed rewards from this loyalty program are what I expected.	.65			
I think I get better prices than customers not in the program.	.66			
I feel that I am getting a good deal by being a member of the program.	.80			
The deals in this loyalty program meet my expectations of ideal deals from this program	.78			
Social benefits		.83	.89	.72
I am recognized by certain employees through this program.	.92			
I know some employees through this program.	.90			
I know some new friends through this program.	.68			
CCID		.84	.90	.76
I will tell others that I am proud to be a customer of this company.	.88			
I feel good to be a customer of this company.	.85			
This company fits me well.	.88			
Program loyalty		.83	.90	.75
I like this loyalty program more than other programs.	.88			
I have a strong preference for this loyalty program.	.89			
I would recommend this loyalty program to others.	.82			
Company loyalty		.87	.92	.80
I say positive things about this company to my friends.	.90			
I would recommend this company from someone seeking my advice.	.88			
I encourage friends and family to shop at this company.	.90			
Customer share of wallet		–	–	–
How much do you expect to use your favorite loyalty program within the next 3 months when you purchase in this product/service category? (0–100%)	–			
Company latent financial risk		–	–	–
If the company quits the loyalty program, and another company offers a similar styled program. How much of your current shopping from current company will be shifted to the other company? (0–100%)	–			

Notes: α = Cronbach's alpha, ρ = composite reliability, and AVE = average variance extracted.

Appendix 2. Comparison of path coefficients

Structural Path	Theoretical model			Controlling for common method variance model		
	Coefficients	t-Value	SMC	Coefficients	t-Value	SMC
Financial benefits → program loyalty	.70	9.87		.42	4.77	
Social benefits → program loyalty	.22	5.50	.53	.33	6.43	.29
Program loyalty → CCID	.63	13.40		.38	5.59	
Social benefits → CCID	.14	3.56	.45	.32	5.78	.33
Program loyalty → company loyalty	.24	4.94		.18	3.53	
CCID → company loyalty	.66	12.03	.70	.65	10.88	.56
Program loyalty → share of wallet	.23	5.16	.03	.13	2.71	.02
Program loyalty → latent financial risk	.24	3.60		.16	2.96	
Company loyalty → latent financial risk	−.20	−3.04	.05	−.15	−2.78	.03

Fit indexes.
Theoretical model: χ^2 (df) = 435.55 (127), $p < .001$; CFI = .97, NNFI = .96, and RMSEA = .068.
Method model: χ^2 (df) = 282.58 (114), $p < .001$; CFI = .98, NNFI = .97, and RMSEA = .051.

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