Recruiting Customers through Referral Programs:

Escaping the Incentive Dilemma by Increasing Self-Efficacy?

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Abstract

Most referral programs in competitive sectors such as the banking or the mobile phone industries are built on reward schemes, characterized by the value and the nature of the rewards, but also by the allocation of the monetary incentive between the recommender and the recipient. Two experiments targeting current customers (N = 181) and prospects (N = 211) reveal the dilemma for managers in the allocation of the reward. Two major antecedents of the motivation to recruit were significantly impacted by the reward allocation, but in opposite directions. Perceived value was higher when the reward favored the recommender whereas perceived self-efficacy was higher when the reward favored the recipient. On the recipient's side, perceived value was higher when the reward favored the recipient whereas perceived fairness was higher for the equal allocation. Inferred altruistic motives were also higher for an equal allocation or a reward favoring the recipient. Beyond an acquisition objective, our results show that these programs can also increase current customers' commitment with the firm, corroborating the results obtained by Garnefeld *et al*. (2013).

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Introduction

Four of the five largest U.S. diet programs offer some referral bonus program, as do three of the five largest cable and satellite television operators. Kornish and Li (2010) also estimate that over 60% of local apartment complexes offer referral bonus programs as do 75% of national Internet service providers. In France, all mobile phone operators except the new entrant Free offer referral programs (De Pechpeyrou and Nicholson, 2013). One of the reasons why firms adopt such programs is that it has been proven that customers recruited through word-of-mouth are more valuable than customers recruited through traditional marketing techniques (Lewis, 2006; Villanueva, Yoo & Hanssens, 2008). In two separate data sets (a newspaper and an online grocer), acquisition discount depth is negatively related to repeat-buying rates and customer asset value (Lewis, 2006).

For a referral program to be effective there must be referrals combined with receiver receptivity (Ryu and Feick, 2007). Among the different co-production forms, referral programs are considered as an "auxiliary" form of participation, where the firm transfers the recruitment process to its customers. The current customers mobilize extraordinary resources to recruit new customers in exchange of an extrinsic motivation – the reward (Bonnemaizon *et al.*, 2012). Even if intrinsic and altruistic motivations can also be considered (Van Hoye, 2013), most research works in marketing focus on the impact of the tangible reward and of the current satisfaction level on word-of-mouth propensity (Wirtz & Chew, 2002; Ryu & Feick, 2007). Consumers behave differently when a reward is offered only with weak ties. With strong ties, there is no increase in referral likelihood with a reward (Ryu & Feick, 2007, Study 1) and there is no significant difference among reward schemes (Ryu & Feick, 2007, Study 3).

A preliminary study in a French context underlines the low level of motivation among current customers to recruit new customers and, more interestingly, demonstrates that motivation to recruit is not influenced by the characteristics of the reward scheme (De Pechpeyrou & Nicholson, 2013). This result goes against previous works showing that the reward amount should positively increase word-of-mouth likelihood. Examining in more detail the experimental protocols used in past research works; we find that the recipient of the referral is always mentioned to the respondent, lowering the effort to find a potential customer. For instance, Wirtz and Chew (2002) mentioned that “Chris unexpectedly meets Josephine, an ex-colleague whom he has not seen for a long time. Josephine tells him that she intends to subscribe to a mobile phone service and is thinking of which service to subscribe to." In Ryu and feick (2007), respondents are asked to identify either a close friend or a casual acquaintance and then to indicate the referral likelihood on a scale anchored by 0% (“certain not to tell this person”) and 100% (“certain to tell this person”). Still, perceived self-efficacy is an important antecedent of motivation to recruit (De Pechpeyrou & Nicholson, 2013). In other words, when the respondent is not sure to find a potential customer, his motivation might remain low even in the presence of a large reward. The first objective of this research is therefore to identify potential mediating mechanisms between the reward characteristics and the motivation of both actors (recommender and recipient). Mediating variables such as perceived self-efficacy and perceived value of the reward could have antagonist effects on motivation to recruit, leading to a null effect.

As underlined by Ryu & Feick (2007), “for a referral program to be effective, there must be referrals combined with receiver receptivity. Receivers may form different perceptions of the recommender and evaluate the brand differently if a referral arises from a reward program rather than from naturally occurring word-of-mouth” (p. 93). Little research has focused on the recipient’s perceptions. In Ryu and Feick (2007), they are indirectly tackled through the perceived potential costs (the social risk of negatively affecting a relationship if an economically driven referral does not work out). The experimental results obtained by Helm *et al*. (2011) show that recipients' perceptions of a rewarded sender are worse than perceptions of a natural referrer. This indicates a potential threat to the personal relationship between sender and recipient, specifically, as this deterioration of perceived trustworthiness held in all conditions, strong ties as well as weak ties, and undermined the position of expert senders more gravely than that of novices. A second objective of our research is to study to what extent a reward scheme more favorable to the recommender might induce negative inferences from the recipient.

Lacking deeper insights, marketing managers tend to assess CRPs exclusively from a customer acquisition perspective, thereby neglecting their potential effects on customer retention (Garnefeld *et al*., 2013). A third objective of our research is to go beyond the motivation to recruit new customers and to include long-term consequences. In doing so, we contribute to Ryu and Feick's call for research examining other downstream variables (e.g., brand attitude, satisfaction, brand loyalty) in the recommender (p. 93). To our knowledge, the only attempt to link current customers' "paid" referral behavior to their loyalty was the research by Garnefeld *et al*. (2013). Their field study shows that, twelve months after the treatment period, the probability of being an active customer was 81% for non-participants but 93% for participants. Their experiment confirms the interaction effect of participation in a customer referral program and reward size on attitudinal loyalty. Whereas participation has a non-significant impact on attitudinal loyalty in the small reward situation, the interaction produces a significant impact in the large reward situation. In line with these works, we wish to test the impact of referral behavior on customers' future commitment with the firm as well as the intensity of future conversations between the recommender and the recipient.

Customers' reactions toward referral programs are studied through two symmetric experiments, targeting current customers (i.e. potential recommenders) and prospects (i.e. potential recipients of the recommendation). This research follows three objectives. The first objective is to uncover the mediating processes between the reward characteristics and the actors' motivations. The second objective is to explore the inferences that the recipient makes regarding the recommender's behavior according to the reward scheme. The third objective is to study long-term consequences of customer referral programs on customers' loyalty. The banking sector is chosen as referral programs are very frequent (De Pechpeyrou, 2014) and referral behavior is engaging for both the recommender and the new customer.

The theoretical framework exposes theories of motivation before focusing on the effect of the reward allocation between the recommender and the recipient. The methodology is then presented. Results are discussed adopting a managerial standpoint.

THEORETICAL FRAMEWORK

Research in marketing has focused on the value of customers acquired through referrals (Kumar, Petersen, & Leone, 2010). We adopt a more psychological approach in order to uncover recommender's as well as recipient's motivation when facing a referral offer. The research hypotheses are related to both antecedents and consequences of the referral behavior.

Motives for Customer Referrals

Traditionally, motivation research has distinguished between intrinsic and extrinsic motives (Deci, Koestner & Ryan, 1999). Whereas intrinsic motivation refers to the motivation to engage in work behavior primarily for its own sake because it is interesting or satisfying, extrinsic motivation is the motivation to perform work behaviors primarily in response to something apart from the behavior itself such as rewards or punishments. In the domain of word-of-mouth, satisfaction can be considered as an intrinsic motive to recruit new customers. Still, most referral programs offer some tangible reward to the recommender and/or the recipient, leading to more extrinsic motives.

In the context of employee referrals, Van Hoye (2013) proposes to go beyond the intrinsic vs. extrinsic motive and to take into account a third kind of motivation, namely prosocial motivation or the motivation to engage in work behavior primarily to benefit other people. According to Van Hoye (2013), there might be two different kinds of prosocial or altruistic motives. On the one hand, consumers spread word-of-mouth because they want to help other consumers, for instance by helping them find a product that fits their needs. On the other hand, word-of-mouth is sometimes motivated by a desire to help the organization or its representatives, for instance by helping them gain more customers. As far as positive word-of mouth is concerned, the prosocial desire to help job seekers find good fitting jobs was the strongest motive, explaining almost half of the predictable variance. On the other side, job dissatisfaction was the strongest motive for negative employee referrals, explaining more than half of the predictable variance (Van Hoye, 2013). Moe and Schweidel (2012) investigated how previously posted ratings may affect an individual's posting behavior in terms of whether to contribute (incidence) and what to contribute (evaluation). Their results show that positive ratings environments increase posting incidence, whereas negative ratings environments discourage posting. Therefore, it is particularly important for firms to have customers spreading a positive word-of-mouth on social networks.

The nature of the tie between the recommender and the recipient has an impact on the explanations given to the word-of-mouth behavior (Frenzen & Nakamoto, 1993). For strong ties, 34 of 61 responses are consistent with generalized exchange (altruism), while 19 reflect balanced exchange or self-interest. For weak ties, only 16 of 59 responses reflect generalized exchange, while 32 reflect balanced exchange or self-interest (economic motives).

The Referral Reward, a Double-Edged Sword

In Wirtz and Chew (2002), satisfaction alone did not induce a consumer to generate word-of-mouth. However, incentives were shown to be effective in inducing satisfied consumers to generate word-of-mouth. For extremely satisfied consumers, the word-of-mouth increased with increasing incentives. The positive effect of reward on word-of-mouth varied with the type of ties and the reward allocation (Ryu and Feick, 2007). Studies 1 and 2 found that with strong ties, rewarding the existing customer (Reward Me) did not increase referral likelihood. Conversely, rewards were important for increasing referral likelihood to weak ties.

Still, giving a tangible reward to a current customer or employee can undermine the intrinsic motivation (Deci & Ryan, 1985; Deci, Koestner & Ryan, 1999). Their meta-analysis of 128 studies examined the effects of extrinsic rewards on intrinsic motivation. Tangible rewards were detrimental to self-reported interest and intrinsic motivation whereas positive feedback increased the self-reported interest in the task (Deci, Koestner & Ryan, 1999).

- Reward Allocation and its Impact on Perceived Value and Fairness

For the same marketing budget, the allocation of the reward between the recommender and the recipient can affect their motivation through two mechanisms: perceived value and perceived fairness. The higher the objective amount one receives, the higher the perceived value. Research on extrinsic motivation suggests that such perceived value should increase the propensity to adopt the expected behavior (Wirtz & Chew, 2002; Ryu & Feick, 2007).

The effect of reward allocation on perceived fairness is more subtle, fairness being based on perceived inputs and outputs of each actor. This evaluation may be prone to an egocentric bias

(De Pechpeyrou, 2014). Indeed, when respondents were asked about what allocation looked fair to them, the percentage given to the recommender varied with the role endorsed by the respondent (recommender vs. recipient). It increased from 50% to 60% when the respondent was asked to consider the recommender's point of view (instead of the recipient's one). This result is convergent with fairness judgments in the price context: "what matters most is not the objective equilibrium between inputs and outputs but the perception of that equilibrium by the different parties, leading the way to possible conflicts as individuals are often prone to perceptual egocentric biases" (Messick & Sentis, 1983, quoted by Corcos & Moati, 2008).

Building on research on extrinsic motivation and fairness judgments, we postulate that:

H1: The objective amount of the reward increases the motivation of the recommender (H1a) and of the recipient (H1b), due to a larger perceived value.

H2: Receiving half or most of the reward increases the individual motivation to act accordingly to the expected behavior, due to a larger perceived fairness.

In particular, when receiving most of the reward, the recommender increases his willingness to recruit (H2a) and the recipient increases his willingness to subscribe (H2b).

- The Allocation of the Reward and its Impact on the Recipient's Thoughts

For psychological costs, there was a significant main effect of reward and tie strength. Participants generated more thoughts about the costs of making a referral when a reward was offered than when it was not and to strong than to weak ties (Ryu & Feick, 2007, Study 2). In their study, others' perceptions of showing genuine concern are measured though two items: "helping others make the best choice," "developing (maintaining) a good relationship with others," whereas psychological costs are measured through two items: "feeling of being selfish" and "feeling of being motivated by money."

H3: A reward more favorable to the recommender increases the inference of the recommender's selfish motives (H3a) whereas a reward more favorable to the recipient increases the inference of the recommender's altruistic motives (H3b).

H4: The recipient's willingness to subscribe increases with the inference of the recommender's altruistic motives (H4a) and decreases with the inference of the recommender's selfish motives (H4b).

Satisfaction toward the Firm as an Intrinsic Motive to Recommend

The meta-analysis by Palmatier *et al*. (2006) on the effectiveness of relationship marketing shows that relational mediators have the largest combined influence on the dyadic outcome of cooperation (r = 0.70), followed by word-of-mouth (r = 0.61). The strong impact of relational variables on word-of-mouth gives credit to Reichheld's thesis according to which personal recommendation is one of the most important indicators of loyalty because of the customer's sacrifice. Only customers deeply involved in the relationship may be willing to risk their reputation in recommending the firm to friends and acquaintances. In the banking sector, a high level of satisfaction might induce word-of-mouth among current customers. Similarly, very satisfied customers will be more difficult to convince to move their financial assets to another bank.

H5: A strong level of satisfaction toward their own bank (a) increases the propensity to recruit new customers but (b) decreases the willingness of recipients to move their financial assets to another bank.

Perceived Self-Efficacy as a Strong Antecedent of Motivation

According to Bandura (1997), perceived self-efficacy is a judgment of capability to execute given types of performances. People differ in the areas in which they cultivate their efficacy and in the levels to which they develop it even within their given pursuits. In the mobile phone industry, perceived self-efficacy was the most influent antecedent to motivation to recruit new customers through referrals (De Pechpeyrou and Nicholson, 2013). Like other concepts in the consumer behavior literature, perceived self-efficacy is influenced by both individual and situational variables.

The research works on opinion leadership can be grouped in three main approaches (Vernette and Giannelloni, 2004). The first one insists on the “influence capacity” of the opinion leader who is defined as “an individual trying to influence the purchasing behavior of other consumers in specific product fields” (Flynn, Goldsmith & Eastman, 1996). A second one adds the dimension of exchange of information between individuals, underlining that opinion leaders are often solicited by their neighbors (King & Summers, 1970). Finally, the third approach considers that an opinion leader possesses these two dimensions of conversations and influence (Sheth, Mittal & Newman, 1999). Therefore, perceived leadership in a product category should increase the perceived self-efficacy in recruiting new customers for the firm.

Verbatim from a qualitative study showed that convincing a friend to move his financial asset to another bank was perceived as requiring a lot of effort for both parties: “*convincing a friend to open a bank account is not an easy thing, as he surely has an account elsewhere. That means convincing him to open the account but also to close his current account, except if he wants to keep both of them. Changing bank implies a lot of administrative stuff: giving notice to all service providers that your bank account has changed takes a lot of time. All that said, the persuasion task remains the most difficult to my view*” (De Pechpeyrou, 2014). The reward scheme could influence the perceived effort associated with the persuasion job, a reward more favorable to the recipient increasing the perceived self-efficacy to convince a friend.

H6: The motivation to recruit new customers through a referral program increases with perceived self-efficacy, which is positively linked to perceived leadership in the category and negatively linked to perceived effort.

Long-Term Consequences of the Referral Behavior

What happens after the referral from the recommender to the recipient? Does the referral behavior increase the customer's commitment to the firm? Does the monetary incentive reduce the customer's intrinsic motivation? Research into the relationship between commitment and consistency asserts that publicly stating a position, such as when making a recommendation, increases loyalty (Cialdini, 1971). Still, on the basis of self-perception theory, engaging in word-of-mouth in return for a reward might also undermine the recommender's satisfaction with the brand. According to Bem's (1972) theory, people infer their attitudes from their own behavior only when no external explanation for their behavior exists. For example, if a person receives a large monetary incentive for fulfilling a special task such as recruiting a new customer, it is impossible to determine the reason for fulfilling that task: The person might like the task (i.e., have a positive attitude toward fulfilling the task) or do it just for the money (Garnefeld *et al.*, 2011). Should the behavior be attributed to the monetary reward, then the attitude towards the firm could become less favorable (Bem, 1972; Garnefeld *et al.*, 2011, 2013). As concluded by Ryu and Feick (2007), engaging in natural word-of-mouth may reinforce recommenders' satisfaction with the brand, whereas making rewarded referrals may undermine it.

Two experiments in two different service settings demonstrate that providing a recommendation influences the senders' attitudinal and behavioral loyalty (Garnefeld *et al.*, 2011). The effect is found to be stronger for customers with low expertise in the service category and little experience with the provider (Experiment 2). Still, in these experiments, word-of-mouth was presented as natural and not linked to a reward scheme. To our knowledge, only Garnefeld *et al*. (2013) focused on the impact of rewarded word-of-mouth on customers' loyalty to the firm. By assessing a large-scale customer data set from a global cellular telecommunications provider, the authors show that participation in a referral program also increases existing customers' loyalty. In a field experiment, recommenders' defection rates fell from 19% to 7% within a year, and their average monthly revenue grew by 11.4% compared with a matched control group. Specifically, participation amplified loyalty when customers were in an early stage of their customer life cycle. Those who had been with the company for a longer time exhibited weaker loyalty effects when participating in a customer referral program. A laboratory experiment confirmed a positive relationship between participation in a customer referral program and behavioral loyalty.

To our knowledge, no research has explicitly dealt with the consequences of referrals on the future relationship between the recommender and the recipient. Ryu and Feick (2007) mentioned the psychological costs associated with referrals, in particular when strong ties are concerned. As the recommendation is an engaging behavior, it seems likely that the conversations will go on after the referral.

> H7: Recruiting a friend increases (a) the recommender's future commitment with the firm and (b) his/her future conversations with the recipient.

METHODOLOGY

For a referral program to be profitable there must be referrals combined with receiver receptivity. As underlined by Ryu and Feick (2007), research on customer referral programs should focus more explicitly on the recommender – recipient dyad. In order to avoid contamination effect, the role (recommender vs. recipient) is manipulated as a betweensubjects factor. The stimuli were the same across the role conditions. Two surveys were elaborated, one for each role. The manipulated factor was the reward allocation (for a total reward of 150€), with three levels: reward more the recommender (100€), equal allocation (75€ for each), reward more the recipient (100€)[1].

The questionnaires followed a similar structure and, when constructs were common in both roles, the scales used were the same (see Appendix 1 for the prompt given to respondents). The academic nature of the research was first mentioned to the respondent. Each respondent was then exposed to a version of a referral program in the banking sector. Part 1 of the survey measured the motivation to recruit (respectively the willingness to subscribe) as well as the evaluation of the reward (perceived value, perceived fairness and preference). Part 2 of the survey measured individual characteristics such as perceived leadership in the financial products category. Part 3 of the survey asked the respondent about his level of satisfaction toward his current bank. A final section measured past referral behaviors during the year. Scales were borrowed from the literature or developed by the author and proved to be reliable (Appendix 2). The survey was administered online among panelists of a French market research firm. The sample of 392 respondents was 64.8% female. Age varied from 18 to 70, with an average of 39.

RESULTS

The scales presented a high reliability, as Cronbach's alphas were above the usual threshold of .7 (see Appendix 2). The effects of the manipulation on reward allocation were tested through analyses of variance. The hypotheses were tested through Smart-PLS.

[1] In half of the experimental conditions, there was an ulterior possibility given to the respondent to give his reward to a non-profit organization. This part of the survey is beyond the scope of that article.

Descriptive Statistics

The survey addressing the recommender's point of view had questions on the relationship between the recommender and the intended recipient. Respondents who could not give the first name of the potential recipient were suppressed from the database.

The average probability to recruit a new customer was lower than 50% (m = 49.2%; s = 29.8%), as well as the willingness to subscribe to the offer (m = 42.2%; s = 28.7%). Surprisingly, the motivation to recruit did not vary with the reward scheme (F (2, 178) = 0.387; p = 0.680). It was also the case with the willingness to subscribe (F (2, 208) = 1.232; p = 0.294). Potential explanations will be given in the discussion section.

Like in previous studies, the recommenders predominantly considered recruiting a member of their family (62.2%) or a close friend (28.3%), rather than a professional tie (5.0%) or a seldom-contacted acquaintance (4.4%). According to the seminal work by Granovetter (1973), the strength of a tie is a (probably linear) combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services which characterize the tie. Each of these is somewhat independent of the other, though the set is obviously highly intracorrelated. Tie strength was later operationalized by Reingen and Kernan (1986) in terms of frequency of communication, duration, and the importance attached to the social relation, assuming that the more frequent, longer, and important the interaction, the stronger the tie.

The perceived proximity with the recipient was measured through 4 items covering these different facets. Perceived proximity was significantly influenced by the nature of the tie (F (3, 176) = 16.434; p = 0.000). It was higher when the recommender considered talking to a family member (m = 5.90), then to a close friend (m = 5.54), then to a professional tie (m = 4.67) and finally to a seldom-contacted acquaintance (m = 3.28). The Bonferroni's multiple comparison procedure revealed that a family member and a close friend were considered as equally close ($p = 0.361$), as well as a close friend and a professional tie ($p = 0.183$). Clearly, family members and close friends were considered as “strong” ties whereas the seldom-contacted acquaintance was considered as a “weak” tie.

Effects of the Allocation of the Reward

The perceptions of the reward were significantly correlated (e.g. $r = .621$ between perceived value of the reward and perceived fairness or $r = .424$ between perceived value of the reward and perceived preference for the recommender). Therefore, the effects of the allocation of the reward on the recommender’s perceptions were tested through a MANOVA.

As expected, the reward allocation had a significant effect on preference (F (2, 177) = 53.487; $p = .000$), on perceived fairness (F (2,177) = 7.914; $p = 0.001$), on perceived value (F (2, 177) = 4.964; $p = .008$) but not on perceived effort (F (2, 177) = 0.826; $p = .440$).

The manipulation of the reward allocation was correctly perceived by respondents asked to endorse the recommender’s role. Preference was significantly higher in the reward scheme favorable to the recommender ($m = 5.61$) than in the two other schemes ($m = 2.95$ for an equal allocation and $m = 3.01$ for a reward scheme favorable to the recipient). Perceived value for the recommender was also higher in the reward scheme favorable to the recommender ($m = 4.49$), then in the equal allocation ($m = 4.16$) and finally in the reward scheme favorable to the recipient ($m = 3.61$). Finally, perceived fairness was higher in the equal allocation ($m = 5.61$) than when the reward favors the recommender ($m = 5.20$) or the recipient ($m = 4.50$).

The perceptions of the reward were significantly correlated (e.g. $r = .489$ between perceived value of the reward and perceived fairness or $r = .409$ between perceived fairness and altruistic motives). Therefore, the effects of the allocation of the reward on the recipient’s perceptions were also tested through a MANOVA.

As expected, the reward allocation had a significant effect on preference (*F* (2, 207) = 75.970; *p* = .000), on perceived value (*F* (2, 207) = 15.243; *p* = .000), on perceived fairness (*F* (2, 207) = 8.930; *p* = .000), on inferred altruistic motives (*F* (2, 207) = 5.380; *p* = .005) and on inferred selfish motives (*F* (2, 207) = 3.758; *p* = .025).

The manipulation of the reward allocation was correctly perceived by respondents asked to endorse the recipient's role. Preference was significantly higher in the reward scheme favorable to the recipient (*m* = 5.65) than in the two other schemes (*m* = 2.80 for an equal allocation and *m* = 2.63 for a reward scheme favorable to the recommender). Perceived value for the recipient was also higher in the reward scheme favorable to the recipient (*m* = 4.78), then in the equal allocation (*m* = 4.26) and finally in the reward scheme favorable to the recommender (*m* = 3.35). Finally, perceived fairness was higher in the equal allocation (*m* = 5.49) than when the reward favored the recommender (*m* = 4.44) or the recipient (*m* = 4.74).

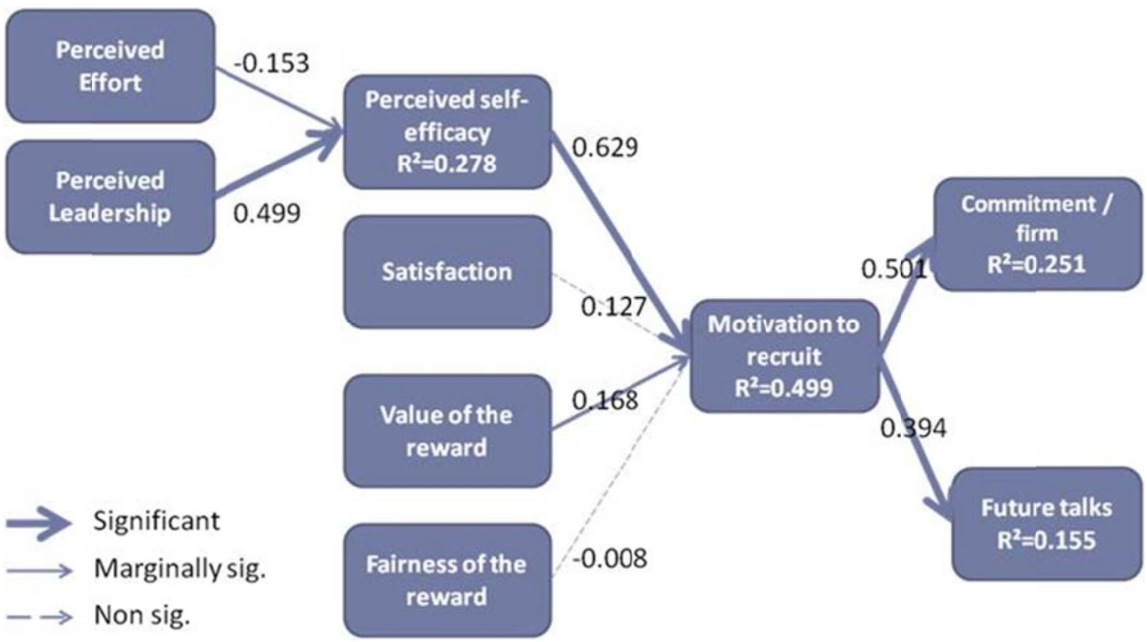
The manipulation of the reward allocation also had an effect on the inferred motives. The inferred altruistic motives were higher when the reward favored the recipient (*m* = 4.83) or was equally allocated (*m* = 4.82) than when the reward favored the recommender (*m* = 4.25). On the contrary, the inferred selfish motives were higher when the reward favored the recommender (*m* = 5.68), then when it was equally allocated (*m* = 5.38) and finally when the reward favored the recipient (*m* = 5.06).

To test the reliability of the constructs, we used the Smart-PLS software which enabled us to perform the PLS regression models. The PLS approach developed by Wold et al. (1984) has several advantages: it is distribution-free; it allows both formative and reflective indicators; the sample size is not important and there are no constraints on the independence of observations.

Results from Experiment 1: The Recommender's Point of View

Three respondents were suppressed for the PLS analysis because of missing values, leaving a sample of 178 respondents. The model presented a good adjustment quality; the average variances extracted exceeding the .5 threshold (see Appendix 3).

Figure 1 – Smart-PLS Model: The Recommender's Side



Determinants of Perceived Self-Efficacy

Leadership in the product category had a positive influence on perceived self-efficacy (b = .499; t = 6.547). Perceived effort associated with the recruitment task had a negative influence, even if the relationship did not reach the usual statistical levels (b = -.153; t = 1.530).

Determinants of Motivation to Recruit

Perceived self-efficacy was by far the major antecedent of the motivation to recruit a new customer (b = .629; t = 7.695), leading to accept H6. In a less significant manner, perceived value of the reward also positively influenced the recommender's motivation to recruit (*b* = .158; *t* = 1.478). The analysis of variance with reward allocation as a factor had shown that perceived value for the recommender was higher when the reward favored the recommender (*m* = 4.49), then when it was equally allocated (*m* = 4.16) and finally when it favored the recipient (*m* = 3.61). Therefore H1a was validated as reward allocation increased motivation to recruit through a higher perceived value. On the other hand, H2a was rejected as perceived fairness had a non-significant effect on the customer motivation to recruit (*b* = -.008; *t* = .068). Finally, the level of satisfaction toward one's bank had a positive effect on motivation to recruit, even if it did not reach statistical significance (*b* = .127; *t* = 1.151). Therefore, H5a was only directionally validated.

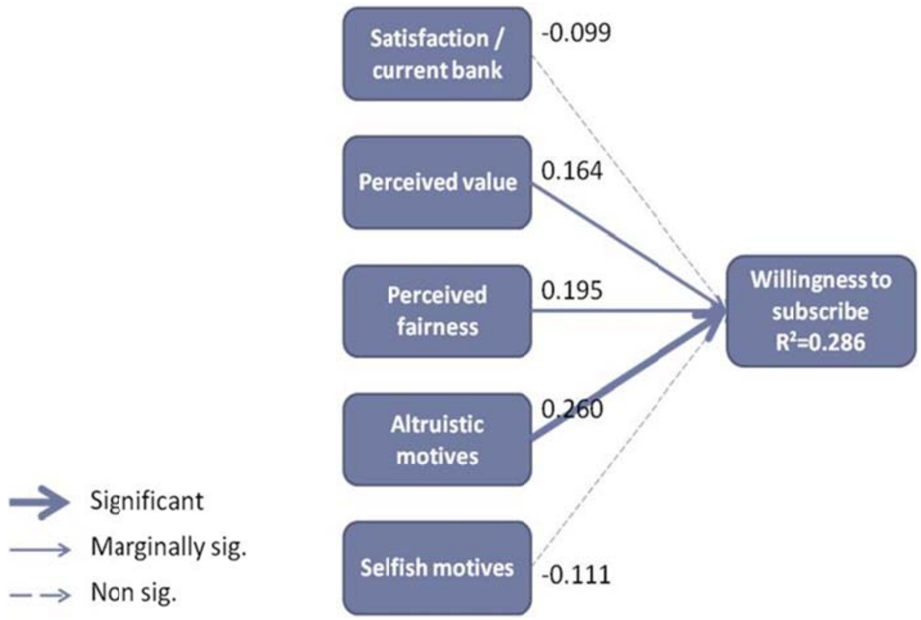
Long-Term Effects of the Referral Behavior

The referral behavior appeared very engaging on the recommender's side. The motivation to recruit a new customer had a positive influence on the recommender's commitment with his bank (*b* = .501; *t* = 6.460). It also had a positive influence on future conversations with the recipient on financial services (*b* = .394; *t* = 3.681), leading to accept H7.

Results from Experiment 2: The Recipient's Point of View

One respondent was suppressed for the PLS analysis because of missing values, leaving a sample of 210 respondents. The model presented a good adjustment quality; the average variances extracted exceeding the .5 threshold (see Appendix 4).

Figure 2 – Smart-PLS Model: The Recipient's Side



The coefficients were estimated with a bootstrapping procedure generating 100 samples of 100 observations (see Appendix 4). Three hypotheses out of five were validated at the 10% level (t = 1.645).

The willingness to subscribe to the bank offering the referral program was positively influenced by the inferred altruistic motives (b = .260; t = 2.777), but not by the inferred selfish motives (b = -.111; t = 1.262). Therefore H4a was validated while H4b was rejected. The willingness to subscribe was also influenced by perceived value for the recipient (b = .164; t = 1.549) as well as perceived fairness of the reward (b = .195; t = 1.760). Additionally, perceived value for the recipient was higher when the reward favored the recipient (m = 4.78) while perceived fairness was higher when the reward was equally allocated (m = 5.49). Therefore, H1b and H2b were directionally validated. The willingness to subscribe to a different bank was not significantly influenced by the satisfaction level toward the current bank (b = -.099; t = .977), leading to reject H5b. The proposed antecedents explained 29% of the variations of the willingness to subscribe to the offer.

DISCUSSION

This research seeks to contribute to the referral programs literature in two main directions. First, it explores the mediating processes between tangible rewards and motivation to recruit and to subscribe, trying to uncover why different reward schemes do not have a significant effect on motivation. Second, it proposes that the referral behavior also has a significant impact on future behaviors, which could be of interest to firms.

Explaining the Non-Significant Effect of Reward on Motivation by Antagonist Influences

Surprisingly, the recommender's and recipient's motivation was not influenced by the reward scheme characteristics. Ryu and Feick (2007) had established that the reward amount had a positive effect on word-of-mouth likelihood, at least among weak ties. In our research, the central variable was more "engaging" than simple word-of-mouth as it referred to the motivation to effectively recruit a friend. Therefore, the effect of the reward on the recommender's motivation to recruit was not direct but mediated by various processes with antagonist effects leading to a null global effect. Similarly, the reward can induce diverging interpretations on the recipient's side.

The test of the structural model identified two major antecedents of motivation to recruit a new customer: perceived self-efficacy and perceived value of the reward. These two variables were significantly impacted by the reward allocation, but in opposite directions. Perceived value of the reward was higher when the reward favored the recommender (m = 4.49), then when it was equally allocated (m = 4.16) and lastly when it favored the recipient (m = 3.61). On the contrary, perceived self-efficacy was higher when the reward favored the recipient (m = 4.61), then when it was equally allocated (m = 4.16) and lastly when it favored the recommender (m = 3.47). The Bonferroni's multiple comparison procedure revealed that the difference between the reward which favored the recommender and the reward which favored the recipient was significant (p = .064). To conclude, whereas a reward favoring the recommender increases the perceived value for the recommender, it also decreases perceived self-efficacy in recruiting a friend.

On the recipient's side, the test of our structural model identified three main antecedents to the willingness to subscribe: perceived value of the reward, perceived fairness of the reward scheme and inferred altruistic motives. There again, these mediating variables were influenced in opposite directions by the reward scheme characteristics. Perceived value was higher when the reward favored the recipient (m = 4.78) whereas perceived fairness was higher for the equal allocation (m = 5.49). Inferred altruistic motives were higher for and equal allocation (m = 4.82) or a reward favoring the recipient (m = 4.83).

How to Build an Effective Customer Referral Program

Most programs in competitive sectors such as the banking or the mobile phone industries are built on reward schemes, characterized by the value and the nature of the rewards, but also by the allocation of the reward between the recommender and the recipient. The effects of this allocation, summarized in Table 1, underline the difficulty of the exercise for managers.

Table 1 – Main Insights about the Reward Allocation

How to increase the motivation to recruit	
Perceived self-efficacy	**$M_{Recipient}$ = 4.61**, M_{Equal} = 4.16, $M_{Recommender}$ = 3.47
Perceived value of the reward	**$M_{Recommender}$ = 4.49,** M_{Equal} = 4.16, $M_{Recipient}$ = 3.61
How to increase the willingness to subscribe	
Perception of altruistic motives	**$M_{Recipient}$ = 4.83, M_{Equal} = 4.82,** $M_{Recommender}$ = 4.25
Perceived value of the reward	**$M_{Recipient}$ = 4.78,** M_{Equal} = 4.26, $M_{Recommender}$ = 3.35
Perceived fairness of the reward	**M_{Equal} = 5.49,** $M_{Recommender}$ = 4.44, $M_{Recipient}$ = 4.74

No reward allocation simultaneously satisfies the recommender and the recipient. This suggests that managers should focus on other antecedents of the motivation, beyond the purely monetary incentive.

When considering the relative importance of the various antecedents of the motivation to recruit, perceived self-efficacy has by far the largest effect. Recommenders might be willing to trade-off part of their reward if this could increase their ability to recruit new customers for the firm. This situation appears to be quite frequent, at least when weak ties are concerned as it is the case with online matchmaking services such as LesParrains.fr[2]. In order to "catch the attention" of potential recipients, potential recommenders announce higher rewards for the recipient as they transfer part of their reward to the recipient (e.g.: http://www.lesparrains.fr/ing-direct/annonces-parrains). For the recipient willing to subscribe to the offer, this raises the dilemma between perceived value and perceived trustworthiness of the sender ("too good to be true" effect). This example underlines that the referral domain is evolving with such social platforms: e-WOM replaces face-to-face WOM, referrals occur between perfect strangers, potential recipients of the offer must evaluate the recommender's trustworthiness through online social cues such as popularity (number of stars and average rating) and number of ratings.

Perceived self-efficacy was also strongly influence by perceived leadership in the product category. This could exclude most of the customers who do not feel confident enough about convincing someone else on "technical" products and services. Re-assuring customers could be attained by mentioning that interpersonal recommendations are common in everyday life. That was done in a humoristic campaign by the online bank ING DIRECT: "You have already recommended your "miracle" beauty cream / your dentist / your gym club / the school of your children / your favorite restaurant / your best movie / your favorite shop/ your best recipe /

[2] The American version of the website is RefAround.com (http://www.refaround.com/) and the British one iReferYou (http://www.ireferyou.co.uk/).

hairdresser. Why not recommend your bank?”. Listing many occasions where the customer has already recommended a service provider to friends or family should increase perceived feasibility and self-efficacy.

Referral Programs, a Loyalty Tool beyond an Acquisition Tool

Past research has established that customers recruited through word-of-mouth are more valuable on the long run than customers recruited with coupons and other traditional marketing techniques (Lewis, 2006; Villanueva, Yoo & Hanssens, 2008). Our results reveal that referral programs can also increase current customers’ commitment with the firm, corroborating the results obtained by Garnefeld *et al*. (2013). A meta-analysis in relationship marketing shows that commitment (r = .58) has the greatest influence on customer loyalty, as we might expect from these two similar constructs (Palmatier *et al*., 2006, p. 97).

Our research focuses on the “positive loop” from recommendation to more commitment with the firm. Therefore we measured perceived future commitment after recommending the bank. Three items were created: “With this referral offer, I would feel like a member of the bank more than before”, “I would be happy to remain loyal to this bank as long as possible”, “I intend to open new financial assets from this bank”. The relationship between motivation to recruit a friend and future commitment was positive and highly significant (b = .501; t = 6.460). The referral behavior has also a social cost for the recommender, as future conversations with the recipient will increase (b = .394; t = 3.681). These results validate a consistency hypothesis, the recommender behaving in a way consistent with the word-of-mouth he had spread. In order to benefit from these future conversations between the recommender and the recipient, firms should send some cross-selling offers also based on interpersonal recommendation, as does the ING Direct bank.

LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

The results of our research underline that no reward scheme simultaneously satisfies both the recommender and the recipient. Still, other antecedents of the motivation to recruit were identified, which should be explored in a more systematic manner. Managerial practices suggest some directions to investigate. One hypothesis to test regards the relevancy of testimonials on the company's website: does the perceived proximity with actual recommenders increase the perceived self-efficacy of customers receiving the referral offer? Another direction, inspired by the loyalty programs literature, would be to study the effect of more symbolic rewards, which could decrease the ease of comparison, and therefore increase perceived value and fairness. A last direction to investigate would be to modify the equilibrium of the fairness judgment by introducing a fourth actor, a non-profit organization to which the recommender and / or the recipient could decide to give his reward.

The variance explained in our research was 50% for the motivation to recruit and 29% for the willingness to subscribe. This suggests that other antecedents might be lacking in the conceptual model. One possible framework could be to introduce the norms of reciprocity, between the recommender and the firm, but also between the recommender and the recipient. As underlined by Palmatier *et al*. (2006), "integrating reciprocity into the relational-mediating framework may also explain the large, direct effect of relationship investment on performance, such that people's inherent desire to repay "debts" generated by sellers' investments may lead to performance-enhancing behaviors, independent of trust or commitment" (p. 101).

Empirical works by Palmatier *et al*. (2009) show that relationship marketing investments generate short-term feelings of gratitude that drive long-lasting performance benefits based on gratitude-related reciprocal behaviors. Four moderating factors increase the effectiveness of relationship marketing programs: customer perceptions of (1) the amount of free will the seller has in making the investment, (2) the seller's motives in making the investment, and (3) the amount of risk the seller takes in making the investment, as well as (4) the customer's need for the benefits received.

Conclusion

As firms increasingly give customers the opportunity to participation in the offer definition (Bonnemaizon *et al.*, 2012), it is vital for them to understand why customers would engage in such activities. The case of referral programs, which require "extraordinary" competencies (the recommender being the equal of a trained salesperson), is specific as it requires that two actors, namely the recommender and the recipient, may be receptive to the firm's communication. Still, research considering the dyad is still very scarce. Our research is a first step to examine the challenge to build a referral program rewarding the recommender and the recipient in a satisfactory manner, or, at least, as expected by both parties. Future works should focus on the antecedents of intrinsic motivation of the recommender and inferred altruistic motive on the recipient's side.

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Appendix 1. Prompt given to respondents (Condition 2 – Recommender – Equal Allocation)

This is an academic research on customers' reactions toward referral programs which are widespread across various industries (banking, mobile phone, insurance, etc.). These programs encourage current customers to recruit new customers for their service provider, usually with a reward for them.

You will be presented a fictitious referral program in the banking sector. Please answer freely; there is no right answer, only your personal opinion matters.

-------Next screen--------

Imagine that you have just received by mail this offer from the bank which holds your main bank account.

Read it carefully.

This offer does not imply any change of your personal situation.

Appendix 2. Items Used in the Surveys and Reliability of the Scales

	Cronbach's Alpha
RECOMMENDER'S SURVEY	
Perceived effort (N = 181) – Xia et al. (2010) I will have to spend a lot of effort in recruiting a customer for that firm. I feel that will have to spend a lot of energy in recruiting a customer for that firm.	0.925
Perceived proximity with the recipient (N = 180) – created I spend a lot of time with that person. I consider that person to be close to me. We frequently help each other. I know that person's tastes and projects quite well.	0.897
Perceived fairness (N = 180) – Xia et al. (2010), Oliver & Swan (1989) Unfair – – – – – – – Fair Unreasonable – – – – – – – Reasonable Unacceptable – – – – – – – Acceptable	0.924
Preference (N = 180) – adapted from Oliver & Swan (1989) I got more out of the deal than the recipient. The recipient got more. I am better off than the recipient.	0.753 (0.874*[3])
Perceived value of the program (N = 180) – Yi & Jeon (2003)[4] The proposed rewards have high cash value for the recommender. The proposed rewards look like those I would expect as a recommender.	0.851
Scenario realism (N = 180) – created This referral scenario is realistic. The referral offer looks credible.	0.943
Commitment with the bank (N = 181) – adapted from N'Goala (2003) With this referral offer, I would feel like a member of the bank more than before. I would be happy to remain loyal to this bank as long as possible. I intend to open new financial assets from this bank.	0.789
RECIPIENT'S SURVEY	
Perceived fairness (N = 211) – Xia et al. (2010), Oliver & Swan (1989) Unfair – – – – – – – Fair Unreasonable – – – – – – – Reasonable Unacceptable – – – – – – – Acceptable	0.904
Preference (N = 211) – adapted from Oliver & Swan (1989) I got more out of the deal than the recommender. The recommender got more. I am better off than the recommender.	0.755 (0.907*)
Perceived value of the program (N = 211) – Yi & Jeon (2003) The proposed rewards have high cash value for the recipient.	0.905

[3] The reliability of the scale increased with the suppression of the reversed item.
[4] From the original 3 items developed to measure the value perception of the loyalty program, the second item ("It is highly likely to get the proposed rewards") was not retained as it did not fit with the certainty associated with the referral program.

The proposed rewards look like those I would expect as a recipient.	
Selfish motives (N = 210) – created The recommender is interested only in his own reward. The recommender wouldn't talk to me about that offer if there were no reward for him.	0.732
Altruistic motives (N = 210) – Created The recommender seeks to give me a good advice. The recommender wishes that I could benefit from an interesting offer.	0.720
Scenario realism (N = 210) - Created This referral scenario is realistic. The referral offer looks credible.	0.940
IN BOTH SURVEYS	
Leadership (N = 391) – Original scale of Childers (1986) adapted to a French context by Ben Miled & Le Louarn (1994)[5] I often talk to my friends and neighbors about banks and financial products. When I talk to my friends and neighbors about banks and financial products, I give a great deal of information. During the past six months, I told a number of people about banks and financial products. In a discussion of banks and financial products, I would be very likely to convince my friends about my ideas. Overall in all of my discussion with friends and neighbors, I am often used as a source of advice.	0.927
Satisfaction with the current bank (N = 391) - Created I am satisfied of that bank. Choosing that bank for my current account was a wise decision. If I had to choose, I would choose another bank (reversed item).	0.840

[5] Contrary to what obtained Ben Miled & Le Louarn (1994), a one-factor solution better fitted our data than a two-factor solution (conversation and influence).

Appendix 3. Quality Criteria of the Model (Recommender's Side)

	AVE	Composite Reliability	R^2	Cronbach's Alpha	Redundancy
Future conversations	1.000	1.000	0.155	1.000	0.155
Perceived self-efficacy	1.000	1.000	0.278	1.000	0.028
Perceived effort	0.928	0.962		0.925	
Future commitment	0.697	0.873	0.251	0.784	0.171
Perceived fairness	0.869	0.952		0.925	
Leadership	0.771	0.944		0.925	
Motivation to recruit	1.000	1.000	0.499	1.000	0.452
Satisfaction toward the bank	0.770	0.907		0.869	
Perceived value	0.871	0.931		0.852	

Path Coefficients (T statistics estimated with a bootstrapping procedure)

	Original Sample (O)	Sample Mean (M)	Standard Error (STERR)	T Statistics (|O/STERR|)
Perceived self-efficacy → Motivation to recruit	0.629	0.627	0.082	7.695
Perceived value → Motivation to recruit	0.158	0.159	0.107	1.478
Satisfaction toward the bank → Motivation to recruit	0.127	0.132	0.110	1.151
Perceived fairness → Motivation to recruit	-0.008	0.001	0.115	0.068
Leadership → Perceived self-efficacy	0.499	0.496	0.076	6.547
Perceived effort → Perceived self-efficacy	-0.153	-0.173	0.100	1.530
Motivation to recruit → Future conversations	0.394	0.386	0.107	3.681
Motivation to recruit → Future commitment	0.501	0.500	0.077	6.470

Appendix 4. Quality Criteria of the Model (Recipient's Side)

	AVE	Composite Reliability	R^2	Cronbach's Alpha	Redundancy
Perceived fairness	0.838	0.939		0.903	
Inference of altruistic motives	0.781	0.877		0.720	
Inference of selfish motives	0.777	0.874		0.732	
Willingness to subscribe	1.000	1.000	0.286	1.000	0.113
Satisfaction toward the bank	0.790	0.918		0.865	
Perceived value	0.912	0.954		0.904	

Path Coefficients (T statistics estimated with a bootstrapping procedure)

	Original Sample (O)	Sample Mean (M)	Standard Error (STERR)	T Statistics (|O/STERR|)
Perceived fairness → Willingness to subscribe	0.195	0.171	0.111	1.760
Altruistic motives → Willingness to subscribe	0.260	0.267	0.094	2.777
Selfish motives → Willingness to subscribe	-0.111	-0.115	0.088	1.262
Satisfaction toward the bank → Willingness to subscribe	-0.099	-0.110	0.101	0.977
Perceived value → Willingness to subscribe	0.164	0.173	0.106	1.549