Loyalty Program Termination Recovery

– A quantitative study on the efficacy of compensation and explanation recovery efforts in mitigating negative reactions following a loyalty program termination

Abstract:

Loyalty program (LP) practitioners increasingly face the necessity to terminate their LP considering the disadvantages to LP management, the fact that LPs continually fail to be of value to many members and the growing shift towards subscription-based loyalty models. Aware that terminations lead to negative customer reactions, managers will inevitably wonder how to mitigate such reactions so as to retain customers and diminish negative backlash. To support managers in this, the current study views an LP termination as a service failure and examines the recovery efforts of compensation and explanations and their respective impacts on recovery outcomes of company loyalty, cumulative satisfaction and negative online word-of-mouth intentions. Causal relationships are hypothesized and explained via perceived equity mediation, drawing on equity and attribution theory. Adopting a between-subject experimental design, the quantitative data yielded a number of findings. Both recovery efforts significantly mitigated negative loyalty, satisfaction and online word-of-mouth intentions, via simple mediation by perceived equity. More specifically, providing low controllability explanations and/or high monetary compensation appears to mitigate these reactions best. In relation to previous LP termination literature, this study contributes in that it quantitatively investigates *how* to successfully terminate an LP. In relation to previous service failure recovery literature, this study contributes by extending the knowledge of the efficacy of compensation and explanation recovery efforts by applying them in a new context.

Keywords:
Loyalty program termination, Service failure, Recovery efforts, Compensation, Explanation, Perceived equity, Loyalty, Satisfaction, NeWOM

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1. Introduction

Ignore customer clubs! There is no such thing as loyal customers.
If there is one thing I have learned from loyalty programs, it is that they do not work.
– Rickard Lyko, CEO of Lyko Group (Nilsson-Lysell, 2023)

1.1 Background

Loyalty programs (LPs) have become commonplace in recent decades in consumer markets such as travel, hospitality, banking and retailing (Chen et al., 2021; Dorotic et al., 2012; Statista, 2022). As a key customer relationship management tool and service to loyal customers, LPs help companies encourage loyalty and retain profitable customers by providing rewards (Chen et al., 2021; Lee et al., 2021). Companies can create a competitive advantage and boost business performance by using an LP's customer-related data to produce insights about general buying behavior and create unique promotions to individual customers (Nunes & Drèze, 2006).

While LPs have several benefits, they also have certain disadvantages. LPs are expensive to manage and their return-on-investment can be questionable, especially if loyalty is not achieved (Neveu, 2022). The management of an LP implies costs of developing technology to support the LP, paying analysts and marketers to produce personalized promotional materials, offering rewards to members and training staff to manage the LP. In North America, a company that runs an LP devotes, on average, 22% of its total marketing budget to LP management (Statista, 2022). LPs are also highly substitutable in the eyes of customers, as 60% of customers that possess a loyalty card also have the loyalty card of competitors (Neveu, 2022) and 75% of members say they would switch to a company that has a better program (KPMG, 2019). Finally, "unredeemed program currency represents serious financial liability that is a serious concern for businesses. Hilton Hotels reported $963 million liability associated with its LP in 2013" (Breugelmans & Liu-Thompkins, 2017, p. 538).

In addition to being expensive to manage, highly substitutable and a financial liability, LPs have also been failing to deliver value from the customer perspective and thus do not generate genuine loyalty. Program value from the customer perspective is comprised of five elements: (1) cash value of redemption rewards, (2) choice of redemption options, (3) aspirational value of rewards, (4) relevance (or likelihood of achieving rewards), and (5) convenience (or ease of use) (Dowling & Uncles, 1997; O'Brien & Jones, 1995). Market data supports that these are elements which members do in fact value, and that the current LP reward schemes that are typically used are not satisfactory anymore to members. More specifically, reports show that “44% of the negative sentiment towards LPs was due to the lack of reward relevance, flexibility and value” (Capgemini, 2015, p. 3). Among millennials, “96% say companies should find new ways to reward loyal customers”, “69% agree that most schemes are too hard to join and/or earn rewards” and “61% prefer to donate their rewards to a good cause rather than redeem them personally” (KPMG, 2019, p. 6). Moreover, while one may be a member of several LPs, one may only be actively participating in half of those programs (Capgemini, 2015). In fact, a gradual decrease in active membership participation rates began already in 2010 (Berry, 2015).

There is also a noticeable shift in favor of subscription-based models as opposed to LPs to capture loyalty. By paying and being locked into a subscription, the advantage here is that customers become more loyal to a brand, revenues are secured and costs associated with reward debt can be less volatile (Neveu, 2022). This trend is exemplified by companies like Amazon, Carrefour, Uber and Espresso House. Amazon Prime, pioneered by Amazon, offers subscribers additional services such as free and expedited delivery, access to exclusive products, and VIP events. Carrefour has also joined the subscription movement with a formula that offers a 15% discount on over 7,000 private label products (Neveu, 2022). Uber terminated its LP in favor of a subscription-based, “Uber One” program which, in exchange for a monthly fee, offers “perks like free food deliveries, discounts on Uber Eats orders and rides from top-rated drivers (Roth, 2022). Espresso House also exemplifies this shift because, instead of rewarding customers with a free coffee after purchasing their “Xth” cup of coffee like a traditional LP, Expresso House (and other coffee chains) have vied to capture loyalty and revenues by getting customers to lock-in and subscribe monthly for their coffee addictions.

LP practitioners need to be prepared to make changes given the aforementioned disadvantages to LP management, the fact that LPs are currently failing to be of value to many members and the growing shift towards subscription-based loyalty models. The resulting negative cost-benefit relationship is leaving more and more practitioners with the difficult decision to either save the LP by overhauling the reward scheme or terminate the LP altogether. Research and guidance on both these choices is critical because, as trends show, members are losing interest in LPs and practitioners need to be prepared to take action. One would therefore expect plentiful guidance and research regarding both choices. This is, however, not the case. As it relates to the former option, practitioners are fortunate as they may refer to an abundance of research on the consumer behavior and firm performance effects of introducing, changing and removing rewards in LPs (Hagström et al., 2022). With respect to the latter option, however, there is a paucity of research that practitioners may refer to that explicitly considers the consumer behavior and firm performance effects of LP termination (e.g., Ching & Hayashi, 2010; McCall & McMahon, 2016; Melnyk & Bijmolt, 2015; Rehnen, 2016). Therefore, there is a large research gap when it comes to understanding the effects of LP termination.

The reason for this imbalance and considerable lack of research on the effects of terminating an LP may be because many practitioners are not willing to give up on their programs. As interviews probing the empirical field conducted by the authors indicated (section 3.2.1.3), practitioners want to do all they can to fix what is wrong with the LP to avoid needing to take such a drastic decision in the first place. In addition to reducing costs, this could imply making the reward scheme changes that members want to see. Hence, the abundance of research on the effects of making reward scheme changes. Moreover, practitioners in industries with a larger share of LPs can succumb to the "me-too" pressure to offer an LP. That is, practitioners may be irrationally reluctant to cancel their LP (even if the benefits to the program are not being realized) just because their competitors still maintain an LP (Uncles et al., 2003). While there certainly are companies that do reap all the intended LP benefits, it is worth considering all the companies that do not, and that are only continuing to manage their LP due to this "me-too" pressure. Nevertheless, a better understanding of the effects of terminating an LP is still important for those practitioners who have realized that the LP is not producing genuine loyalty, have done all they can to fix the LP cost and reward structure, and are not feeling this "me-too" pressure to preserve the LP.

Looking closely at the research that has been conducted on the effects of LP termination, another research gap presents itself. While LP termination can significantly increase customer defection and decrease brand and customer loyalty (McCall & McMahon, 2016; Melnyk & Bijmolt, 2015), no previous research has gone one step further and quantitatively investigated how to effectively mitigate these negative reactions, so as to keep customers loyal. This is critical because "an old customer retained is worth more than a new customer won" (Nunes & Drèze, 2006). By examining how previous actual LP terminations have been handled in practice, it is clear that, to mitigate negative reactions, LP terminations are almost always accompanied by some form of recovery effort(s) (e.g., an apology, compensation, explanation or some combination). For example, in terminating its LP in November 2022, Uber offered members compensation and also indirectly provided an explanation for the termination by claiming it was due to a highly controllable, internal shift in focus (Roth, 2022). Similarly, in terminating its LP, Monoprix also offered monetary compensation in the form of a free tote bag gift and indirectly provided a highly controllable, shift in focus explanation for the termination as well (Monoprix, 2023).

Such recovery effort(s) come from service failure recovery (SFR) literature and their effectiveness in mitigating negative failure reactions can be explained by equity theory. Suggesting that individuals are motivated to maintain a sense of balance and fairness in their relationships, recovery efforts are effective because they restore cumulative and transactional equity perceptions in the customer-company relationship and make up for the perceived loss (Kwon & Jang, 2012). Although Uber and Monoprix provide examples of compensation and explanation recovery efforts from SFR being used after the termination of an LP, and negative reactions were certainly mitigated by providing them, the question that remains is: could the negative reactions have been mitigated even more with different deployments of the recovery efforts? As the choice, fit and amount of the specific recovery effort that is used is critical to how well equity perceptions are restored (Smith et al., 1999), understanding how changing the magnitude of the compensation and the controllability of the explanation will affect equity perceptions and, in turn, mitigate negative reactions would be invaluable for practitioners hoping to successfully recover from an LP termination. If these reactions were to be quantified, practitioners may be less reluctant to terminate their LPs and employ these recovery efforts. Can changing the magnitude of the monetary compensation and the controllability of the termination explanation significantly mitigate the negative reactions of LP members following an LP termination failure?

1.2 Purpose

The background suggests that previous research provides more insight on the effects of overhauling the rewards structure of a failing LP than it does on the effects of terminating an LP altogether. Considering that LPs are expensive, substitutable and losing value to members and the shift towards subscription-based models, it is surprising that there is not more evidence on the effects of terminating LPs as this is a decision which more and more practitioners will need to face. Moreover, of the sparse research that does exist on LP termination, not much guidance is given on *how* to terminate an LP so as to mitigate the negative reactions that follow. The LP literature on termination calls for the need to quantify the LP termination process and examine the effects of LP termination on other variables besides loyalty, like satisfaction and negative online word-of-mouth (NeWOM) intentions (Melnyk & Bijmolt, 2015; Rehnen, 2016). To do this, however, LP termination must be viewed as a service failure so that recovery efforts from SFR literature may be applied. Among those recovery efforts, compensation and explanation are applicable and commonly used in the LP termination failure context. Given the background and the aforementioned calls for future research, the purpose of the current study is to further the understanding of *how* to successfully terminate an LP by quantitatively analyzing the effect which compensation and explanation recovery efforts have in mitigating negative reactions following the termination of an LP. The current study looks at perceived equity as a key variable in mediating the negative reactions in this context as perceived equity is argued to be a customer's psychological response to the value that a service provider offers which in turn is essential for a company's service recovery efforts (Olsen & Johnson, 2003). The compensation recovery will be considered by manipulating different levels of monetary magnitude while the explanation recovery will be considered by manipulating if the company-explained reason for the failure is within its control or not. More specifically, the research question is as follows:

Does the magnitude of monetary compensation and the failure controllability of an explanation as recovery efforts following an LP termination failure have a significant positive effect on equity perceptions and impact the recovery outcomes of company loyalty, cumulative satisfaction and negative online word-of-mouth intentions?

1.3 Expected Knowledge Contribution

Fulfilling the aforementioned purpose and research question will lead to scientific and practical knowledge contributions. In terms of scientific knowledge contributions, the current study contributes to existing SFR literature and LP literature in tandem. It contributes to existing SFR literature as it applies and tests various treatments of compensation and explanation recovery efforts in a novel, LP termination failure context, and thus betters the understanding of how these recovery efforts influence various recovery outcomes. At the same time, it also contributes to existing LP literature on terminations as it goes one step further and quantitatively examines how to mitigate the negative reactions to an LP termination by utilizing recovery efforts borrowed from SFR literature. Thus, by combining these two fields of literature, the current study contributes simultaneously to both fields. In terms of expected practical knowledge contributions, the current study contributes as it provides LP practitioners with a clearer roadmap around how to best employ compensation and explanation recovery efforts if they were to terminate their LP so as to mitigate negative reactions.

1.4 Delimitations

To manage the reader's expectations regarding the scope and limitations of the study, delimitations are laid out. First, considering the fact that the current study crosses over SFR and LP literature, the retail industry served as an appropriate industry to focus on as SFR experiments often examine retail contexts (e.g., F.-Y. Pai et al., 2018) and it is the most common industry where LPs are used and are studied in LP literature (Berry, 2015; Chen et al., 2021). Moreover, as the retail industry has a higher share of firms with LPs than many other industries, a company with an LP in the retail industry should expect stronger negative reactions to an LP termination (Melnyk & Bijmolt, 2015). Stronger negative reactions are favorable for the current study as the purpose of the current study is to analyze how effective compensation and explanation recovery efforts are at mitigating these negative reactions. Additionally, as the findings from LP market interviews probing the empirical field conducted by the authors suggest (section 3.2.1.3), LP managers in other sectors like airline or hospitality seem more strongly attached to their LPs as the LP and those businesses go hand-in-hand. Thus, to make the study more practically relevant, the authors chose to focus the study on the retail industry as it was the industry which the authors interpreted that LP managers could most likely foresee exiting their respective programs and where LPs could see the greatest decline.

Second, the experimental design is kept to a quantitative, scenario-based between-subject design as this method not only best fit the LP termination, reaction-measuring purpose the authors set out to achieve, but also was favorable in terms of resource constraints. Achieving the same purpose with real time data from an actual LP termination would imply finding a retailer that was planning to terminate its LP (plans which are usually kept discrete from the public) and coordinating with them to manipulate the compensations and explanations provided to actual members when they actually do terminate the LP. Measurement of those members' reactions in terms of perceived equity, company loyalty, cumulative satisfaction and NeWOM intentions would all then need to be captured post termination with an online survey. To enhance respondent realism perceptions and help them envision themselves in the LP termination scenario described in the experiment, respondents are first told to imagine an LP they actually belong to. Asking respondents to think of an LP they are an actual member of has been proven successful in previous research capturing LP termination reactions (Melnyk & Bijmolt, 2015). This hybrid approach of adding individual imagination elements to the scenario-based experimental design also allows for increased validity (Ercan et al., 2022).

Third, with respect to the LP type, the current study considers traditional, stand-alone LPs that offer monetary rewards. A stand-alone LP was desirable to focus on as previous research has already studied exit strategies from LPs for mainly multi-vendor LPs (Rehnen, 2016) and it would have been difficult to isolate which company the customers' reactions were towards if multi-vendor LPs were also considered. Moreover, LPs with monetary rewards were of greater interest for the current study as it is those LPs which experience greater expenses in management and thus contemplate termination more than a company with an LP that does not offer monetary rewards that are costly to offer members.

Fourth, compensation magnitude and failure controllability explanation recovery efforts were studied as opposed to other recovery efforts for several contextual reasons. Since the current study considers an LP termination failure context, some recovery efforts were more applicable than others. For example, response speed is difficult to apply in this context as the company controls when the LP is being terminated and thus this is not a matter of reacting quickly to an accidentally failed service. Similarly, simple correction of the failure or exceptional treatment are not possible in this context as the LP manager cannot please members at such an individual level (Lewis & McCann, 2004). The fixed instability (uncommonness) of LP termination failure context even dictated why controllability of the explanation was considered and not other attributional dimensions of failure (more in section 2.2.3.2; Folkes, 1984; Grewal et al., 2008). Moreover, some recovery efforts like an apology or empathy are naturally expected by customers. This was supported by interviews probing the empirical field conducted by the authors and previous LP exit strategy research (section 3.2.1.3; Rehnen, 2016). Given what was learned in the interviews, the current study focuses on those recovery efforts that LP managers could potentially see themselves employing should they need to terminate their LP, but are also not as obvious to LP practitioners and require more careful consideration, i.e., the magnitude of compensation and controllability of the LP termination explanation.

1.5 Disposition

The report is divided into 6 chapters: The introduction (1) shed light on the background to the subject of the thesis, its purpose and research question while also pointing out why it is relevant and how it contributes scientifically and practically. The conceptual background and hypotheses development (2) helps the reader see the logic of the study by explaining how streams of literature can be integrated and the underlying theory which hypotheses are based on. The methodological approach (3) clearly and logically describes the scientific approach, how the preparatory work and the main study were conducted and discusses reliability and validity as indicators of the data quality. Next, the empirical results and analysis (4) of the study presents controls and manipulation checks, as well as whether the results support the hypotheses. The discussion and implications (5) discuss the presented results and confirm expected theoretical and practical implications, as well as provide recommendations for future research and limitations. Finally, the reference list (6) outlines sources used in the text and further leads into the appendix which shows the conducted studies and provides supporting figures.

2. Conceptual Background and Hypotheses Development

This chapter first provides some background to LPs and LP termination effects and strategies (section 2.1). LP termination is then connected to service failure literature by linking it to existing failure types and viewing LP promotions as a service (section 2.2). As sub-sections, the recovery efforts (monetary compensation magnitude and failure controllability explanation) are introduced and the way in which they mitigate negative reactions following an LP termination is explained and hypothesized. In addition, the moderating effect of relationship quality on the recovery efforts is considered as a context variable.

2.1 Loyalty Programs

The following section (2.1.1) provides background to LP literature, before the next section (2.1.2) introduces LP termination, its effects and strategies.

2.1.1 Background

As marketing tool in various industries, an LP "comprises integrated systems of personalized marketing actions and marketing communications that offers tangible (e.g., discounts, vouchers, or gifts) or intangible (e.g., personalized service, status, or information) rewards" (Chen et al., 2021, p. 179). LP members achieve such rewards through repeated patronage at the firm (Breugelmans & Liu-Thompkins, 2017). Once members have accrued enough points through their purchase behavior, they may choose to redeem rewards from that program. While there are many varieties of LP structures (e.g., fee vs. free-based, hierarchical vs. non-hierarchical, stand-alone vs. multi-vendor) (Hagström et al., 2022), the essential characteristics which all LPs hold are: (1) they aim to promote attitude and behavioral loyalty, (2) they are based on some form of formal membership, (3) they are long-term in nature, (4) they reward customers who are members based on their buying behavior, and (5) they enable ongoing marketing activities tailored to its members (Dorotic et al., 2012).

2.1.2 Termination

As mentioned in the introduction, scant research has been conducted on the effects of LP termination and how to terminate an LP. Although limited, the findings from these studies about the effects of LP termination have important implications for companies that are considering discontinuing their LP. With regard to what is known about LP termination effects, it significantly increases customer defection and decreases brand and customer loyalty (McCall & McMahon, 2016; Melnyk & Bijmolt, 2015). The negative effect on customer loyalty is particularly stronger when a company terminates an LP in an industry where a larger share of firms have LPs, e.g., gas stations (Melnyk & Bijmolt, 2015). This suggests that customers in these industries have come to expect LPs as a standard feature, and firms that do not offer an LP or terminate their existing LP may face greater challenges in retaining customers (Melnyk & Bijmolt, 2015). LP termination has also been seen to generally have a stronger negative loyalty effect on men than on women (Melnyk & Bijmolt, 2015). Compared to men, however, women perceive a larger negative impact regarding termination of LPs that have customization elements, i.e., adaptation to the individual's needs rather than being standardized across all members (Melnyk & Bijmolt, 2015). Moreover, price-sensitive customers and customers who generally perceive LPs to be important are more likely to decrease their loyalty to a firm when the LP is terminated (Melnyk & Bijmolt, 2015).

With regard to findings on LP strategies (or how to terminate an LP), studies support that a "phase out slowly" or gradual termination exit plan is preferable in terms of customer reactions, as it allows members to redeem all their points before they are rendered useless (Melnyk & Bijmolt, 2015; Rehnen 2016). This is particularly important for "older" LPs with many long-term customers who have accumulated many points/rewards (Melnyk & Bijmolt, 2015). Rehnen (2016) shows that, after LP termination, customers are primarily concerned with the status of their remaining points. This highlights the importance of communicating the exit plan of the LP termination with customers and providing them with a clear information policy about how much time they have to redeem their remaining rewards. A company's choice to not communicate and explain why the LP has been shut down is most often related to their corporate communication strategy (Rehnen, 2016). Previous cases of LP termination have shown, however, that some companies elect to share an explanation for the LP termination failure rather than remain silent (Rehnen, 2016).

While some effects and best practices of LP termination can be implied from previous research, the existing LP literature primarily focuses on the reactions to a termination and not enough quantitative research has been done on how to rectify it. It is therefore still necessary to gain a better understanding of how to successfully terminate an LP so as to mitigate negative reactions. As suggested in the introduction, this can be done by using recovery efforts from SFR literature.

2.2 Service Failure Recovery

The following section (2.2.1) provides background to SFR literature, before the next section (2.2.2) justifies why an LP termination can be viewed as a service failure. The next section (2.2.3) introduces the various types of recovery efforts before providing respective conceptual backgrounds to the recovery efforts that are in focus for the current study: monetary compensation magnitude and failure controllability explanation. This, in turn, leads to an equity and attribution theory driven hypotheses development for how the recovery efforts of monetary compensation magnitude (2.2.3.1) and a failure controllability explanation (2.2.3.2) individually and jointly (2.2.3.3) effect company loyalty, cumulative satisfaction and NeWOM intentions via perceived equity. Relationship quality is also considered as a context variable potentially having a moderating effect (2.2.4).

2.2.1 Background

Service failure recovery (SFR) studies instances where service performance does not meet customer expectations (Krishna et al., 2011). A service failure is "any real or perceived service-related mishap or problem that occurs during a consumer's experience" (F.-Y. Pai et al., 2018, p. 1303). Without any organizational response in the form of a recovery effort, failure to meet customer expectations manifests itself in customers having negative emotions and behavioral intentions towards the company such as dissatisfaction, a decline in customer confidence, negative word-of-mouth behavior and customer defection (Grégoire et al., 2009; Lewis & McCann, 2004). Instrumental to mitigating the negative effects on customers is thus how well the recovery effort(s) restores cumulative and transactional equity perceptions in the exchange; a relationship that is strongly dictated by equity theory.

2.2.2 Dependent Variables

In the current study, three dependent variables were examined to assess the impact of LP termination and recovery efforts on customer reactions. These variables included customers' company loyalty, cumulative satisfaction and negative online word-of-mouth intentions.

Company loyalty refers to the extent to which customers feel committed and devoted to a particular company or brand. In the context of LP termination, understanding the impact on company loyalty is crucial because a successful termination strategy should aim to retain as many loyal customers as possible.
Cumulative satisfaction refers to the overall satisfaction that customers have accumulated over their interactions and experiences with the company. The termination of an LP can be a critical touchpoint that impacts the cumulative satisfaction of customers. A negative experience during this phase can overshadow all previous positive experiences, leading to a decline in cumulative satisfaction.

Negative online word-of-mouth intentions represent the likelihood of customers sharing negative experiences, complaints, or dissatisfaction with others on various online platforms. In today's digital era, online word-of-mouth can have a significant impact on a company's reputation and brand image. If customers feel aggrieved by the LP termination and have negative word-of-mouth intentions, they may share their grievances online, potentially reaching a wide audience and influencing potential customers' decisions.

2.2.3 Failure Types and LP Termination

Several classifications of service failure types exist such as reversible vs. irreversible failures and monetary vs. non-monetary failures (Cambra-Fierro et al., 2015; Roschk & Gelbrich, 2014). For instance, an example of a reversible failure would be an incorrect restaurant order, while an example of an irreversible failure would be an unavailable meal (Roschk & Gelbrich, 2014). On the other hand, an example of a monetary failure would be faulty tires, while an example of a non-monetary failure would be a delayed flight (Cambra-Fierro et al., 2015; Fouroudi et al., 2020).

Tying LP termination to the aforementioned service failure types, the current study argues that an LP termination could be seen as an irreversible, monetary service failure for LP members. It is an irreversible failure in that the decision to terminate the LP is final and the same program will not come back. Moreover, it is also a monetary failure as members accrue points corresponding to their buying behavior with the company. These points thus hold monetary value and act as currency since they can be redeemed for rewards (e.g., discounts or vouchers on products). The termination of a program, and, with that, the loss of accrued points and rewards, results in a monetary loss for members.

While it may not be as tangible as the acts of service which restaurant or retail store personnel provide, an LP can also be seen as offering a service to its members because behind-the-scenes marketing staff work hard analyzing customer data in order to provide personal, valuable and exclusive rewards to LP members. Putting together such utilitarian/monetary rewards, as well as symbolic and hedonic rewards such as unique experiences, trialing of new or innovative products, participating in events, information of new trends and competitions for LP members (Mimouni-Chaabane & Volle, 2010), require considerable effort from the marketing team and should be considered a service.

2.2.4 Recovery Efforts

Just as there are many service failure types, there are also several service recovery efforts to redress these failures. Service recovery efforts can be classified as the following: apology, correction, empathy, compensation, follow-up, acknowledgement, explanation, exceptional treatment and managerial intervention (Lewis & McCann, 2004). As mentioned in the delimitations, the current study only considers the recovery efforts of magnitude of monetary compensation and the controllability of the failure explanation for contextual reasons.

2.2.4.1 Monetary Compensation Magnitude Recovery

Although studies often manipulate compensation as being provided or not provided (e.g., F.-Y. Pai et al., 2018; Kwon & Jang, 2012), monetary compensation can also be presented on a compensation value continuum; in other words, compensation magnitude. This is perhaps more relevant to cost-saving managers who are not only uncertain as to whether it is worth it to provide monetary compensation, but also do not know how much to give if they do provide compensation. This will also help managers to avoid unnecessarily compensating customers and/or overcompensating. Thus, there is potentially more insight to be gained for managers by adding several levels or magnitudes of compensation. For example, by manipulating compensation magnitude, Edström et al. (2022) analyze how to restore customer satisfaction yet avoid overcompensation and identify a threshold compensation value for service recovery paradox: a phenomenon that "occurs when a customer's level of satisfaction after a service failure followed by successful service recovery is higher than if the initial service had been error-free to begin with" (p. 9). Revealing that there is a true compensation threshold to achieving higher levels of satisfaction than error-free service (Edström et al., 2022).

Considering the conceptual framework and the hypotheses submitted in relation to monetary compensation, the first assumption is that monetary compensation and perceived equity are positively related such that offering high monetary compensation after LP termination failure will produce higher levels of perceived equity than offering low or no monetary compensation. Perceived equity is a customer's psychological response to the value that a service provider offers which in turn is essential for a company's service recovery efforts (Olsen & Johnson, 2003). Essentially, "when customers are dissatisfied to the point where they have a reason to complain, the focus should be on improving perceptions of equity or fairness per se" (Olsen & Johnson, 2003, p. 193).

To explain compensation magnitude's positive relationship with perceived equity, equity theory is applied as opposed to justice theory. Justice theory is not applied because it only captures fairness perception of recovery efforts in a transaction-specific manner with measures like distributive, procedural and interactional justice (Kwon & Jang, 2012). Equity theory, on the other hand, is more appropriate to apply given the LP termination failure context as it not only captures fairness perception of recovery efforts in a transaction-specific manner, but also a cumulative manner, recognizing that customers rely on their entire experience when forming attitudes and intentions (Olsen & Johnson, 2003). Capturing this cumulative perspective is important in the context of LP termination failure as LPs are long-term in nature and so too are membership interactions with them. Consequently, when an LP terminates, members will consider their entire experience with the LP. Moreover, equity theory has previously been applied in both service failure and LP studies to explain how customers arrive at their fairness perceptions after they have been treated unfairly (e.g., Grewal et al., 2008; Kwon & Jang, 2012; Söderlund & Colliander, 2015; Wirtz & Mattila, 2004).

Equity theory suggests that individuals are motivated to maintain a sense of balance and fairness in their relationships and is closely related to the concept of reciprocity in market exchange relationships (Kwon & Jang, 2012; Olsen & Johnson, 2003). This same motivation is very relevant in the context of a service failure where a sense of imbalance and unfairness is bound to occur in the customer-company relationship. In fact, a "perceived loss of equity due to a service failure is a key assumption (i.e., service failure and recovery), and, therefore, equity needs to be restored to the relationship" in order to not lose customers (Kwon & Jang, 2012, p. 1236). An equitable relationship is crucially restored and customers are ultimately retained by providing recovery efforts that equitably make up for the perceived loss (Kwon & Jang, 2012). Moreover, the choice, fit and amount of the specific recovery effort that is used will be critical to how well equity perceptions are restored (Smith et al., 1999). The recovery effort must fit the crime essentially (Olsen & Johnson, 2003).

As an LP termination failure is a monetary failure (implying an economic loss for the LP member), monetary compensation is a fitting recovery effort to employ and should therefore be more effective at restoring equity perceptions than other recovery efforts (Roschk & Gelbrich, 2014). In addition to the recovery effort being a good fit, customers also prefer to receive the offered recovery in amounts that are commensurate with the magnitude of the failure that occurs (Smith et al., 1999). In other words, if the magnitude of the failure is considered to be large by the LP member, a high amount of monetary compensation will be expected. The perceived magnitude of the failure can be dependent on several factors in this LP termination context, such as, the extent to which the LP member is attached to the LP at the time of termination or how much monetary value they may face losing if accumulated points and rewards are cleared. Regardless of the perceived magnitude of the failure which the individual LP member experiences, a high level of compensation should more equitably rectify the perceived loss of the LP termination than a low level of or no compensation, and thereby improve fairness and equity perceptions (Gelbrich & Roschk, 2011). Previous empirical SFR studies have supported that customers' equity perceptions are significantly higher when they are compensated for a service failure than when they are not (F.-Y. Pai et al., 2018; Kwon & Jang, 2012).

It should be noted, however, that offering a low level of compensation can generate almost significantly worse perceived fairness (a comparable mediator to perceived equity) reactions than offering no compensation whatsoever. This could be because, compared to what customers feel is fair, low monetary compensation may be perceived as insulting (Lepthien et al., 2017). Given what equity theory suggests, and that previous research has shown that the difference between low and no compensation is insignificant and can thus be "grouped" when comparing greater group differences (Lepthein et al., 2017), the following hypothesis is submitted to empirical testing:

H1: High monetary compensation will produce higher levels of perceived equity than low or no monetary compensation.

Still applying equity theory, the next assumption is that the effectiveness of recovery efforts in improving attitudinal and behavioral reactions following the LP termination failure should be a function of the equity perceptions (F.-Y. Pai et al., 2018; Kwon & Jang, 2012). More specifically, perceived equity should be positively correlated with company loyalty and cumulative satisfaction and negatively correlated with NeWOM intentions. Previous empirical findings support that the process that generates different customer attitudinal and behavioral reactions is strongly linked to the perceived equity associations with the recovery attempt (e.g., F.-Y. Pai et al., 2018; Grewal et al., 2008; Kwon & Jang, 2012). Perceived equity is thus a key factor in determining the effectiveness of recovery efforts on customer attitudinal and behavioral reactions. That is, if equity is sufficiently restored through a fitting recovery attempt, then negative customer attitudinal and behavioral reactions to the service failure should be mitigated and neutralized. Therefore, the following hypothesis is suggested:

H2: Perceived equity is positively correlated with (a) company loyalty and (b) cumulative satisfaction, and negatively correlated with (c) NeWOM intentions.

H1 and H2 imply a view of the impact of monetary compensation magnitude on company loyalty, cumulative satisfaction and NeWOM intentions as mediated by perceived equity. To assess this aspect, the following is hypothesized:

H3: The impact of monetary compensation magnitude on (a) company loyalty, (b) cumulative satisfaction is positively mediated by perceived equity, while (c) NeWOM intentions is negatively mediated by perceived equity.

2.2.4.2 Failure Controllability Explanation Recovery

Service failure explanation, the act of giving a legitimate reason in response to defects or failures in a service encounter between the company and customer (Lewis & McCann, 2004), is the other recovery effort which the current study focuses on. Mattila (2006) stresses that there is limited research on the effectiveness of explanations in mitigating the negative effects of service failures, which is surprising given that attribution theory demonstrates that people will seek causal explanations for events that are either unexpected or unfavorable (Folkes, 1988; Weiner, 2000).

There are several reasons for why it is crucial to research and employ causal explanations or accounts in the service failure context. First, cognitive appraisal (the subjective interpretation by an individual to stimuli in the environment) of a service failure should impact people's emotional and behavioral responses to the situation (Lazarus, 1982). Second, using explanations to manage consumer perception can be an easy and affordable strategy (Mattila, 2006). Third, if customers are not offered an explanation by the company, they may draw their own conclusions regarding the reasons for the termination and are more likely to have a negative view of the process fairness. A worst-case view of the service provider's motivations and intents is thus eliminated by providing a causal account (Bies & Shapiro, 1987).

The social psychology theory of attribution is focused on how individuals interpret and respond to the social world by analyzing how they perceive events and how these perceptions impact their thoughts and actions (Heider, 1958; Kelley, 1967). Attribution theory and service recovery is commonly analyzed in service failure (e.g., Bitner, 1990; Grewal et al., 2008; Lepthien et al., 2017). Failure attribution is what customers attribute the cause behind a product or service-related failure to be (Folkes et al., 1987) and how this in turn influences customer behavior (Richins, 1983). According to Weiner (1980), there are three main causal properties or dimensions to failure attribution: (1) stability, (2) locus of control and (3) controllability. Stability: whether the failure is relatively common or uncommon; locus of control: whether the failure is company or consumer related; and controllability: whether the failure is controllable or non-controllable by the company (Folkes, 1984). See examples in Appendix 1.

Folkes (1984) continued to separately measure locus of control and controllability and found a significantly high correlation between the two. Weiner (2000) and Tsiros et al. (2004) arrived at a similar finding. While the concepts of locus of control and controllability overlap and have been jointly referred to as responsibility in previous literature (F.-Y. Pai et al., 2018), the current study continues to consider how the explanation effort can be manipulated to influence controllability attributions and not locus of control attributions. The way in which the explanation effort can be manipulated to influence stability attributions is also not considered because the nature of an LP termination is already unstable (or uncommon) as it is and, therefore, there would be no use in trying to get members to attribute stable failure perceptions via the explanation. Consequently, the current study focuses only on controllability as the causal dimension for the explanation recovery effort.

According to marketing literature, explanations may influence customer perceptions positively via casual accounts (Bitner et al., 1990; Conlon & Murray, 1996; Gelbrich, 2010; Sparks & Callan, 1997). For instance, Gelbrich (2010) shows that by providing an explanation following a service failure, customers' feelings of helplessness, anger and frustration can be mitigated. Previous studies have further demonstrated that customers' controllability attributions in a service failure is related to several important affective and behavioral outcomes (e.g., Bitner, 1990; Choi & Mattila, 2008; Folkes, 1984; Tsiros et al., 2004). For instance, Choi & Mattila (2008) concluded that when customers perceived that the firm could have prevented the service failure (high controllability), their reactions, e.g., overall satisfaction and word of mouth intentions, were greatly negative towards the firm compared to when the firm was not in control (low controllability). Therefore, when customers perceive that a service failure is not in their service provider's control, they tend to be more understanding and forgiving (Maxham & Netemeyer, 2002) compared to if they believe that the service provider could have predicted and prevented the failure (Folkes, 1984; Nikbin et al., 2014).

Varying degrees of emotional valence and expectations of recovery can occur given the failure controllability attribution which customers arrive at by themselves through rational information processing of the company-provided failure explanation. Considering that an LP termination is seen as an irreversible, monetary service failure, LP members will experience the situation as unfair given their perceived loss once it is communicated that the LP will be terminated. According to equity theory, a feeling of unfairness will in turn lead to a perceived loss of equity in the relationship, which, without any recovery effort, translates to negative customer reactions towards the company (Kwon & Jang, 2012). In this context, strong evidence indicates that explanations influence people's judgments of fairness in a positive way (Mattila, 2006; Shaw et al., 2003). Thus, once an explanation is given for the LP termination this will restore customers' perceived equity. In addition, when the failure explanation is influencing LP members' attribution to causes that were uncontrollable by the company (i.e., the causes were nonvolitional and constraint was involved), they will be more understanding (Folkes, 1984). The customer will think that there was only so much the company could have done to prevent it and thus be forgiving and have sympathy for the company, which will lead to higher perceived equity restored. On the contrary, when the failure explanation is influencing LP members' attribution to causes that were controllable by the company (i.e., the causes were volitional and choice was involved), they will be outraged with the company and will have a strong desire to hurt the company (Folkes, 1984). This will lead to customers arriving at lower perceived equity restored in light of the explanation. Given these routes of influence, then, the following is hypothesized:

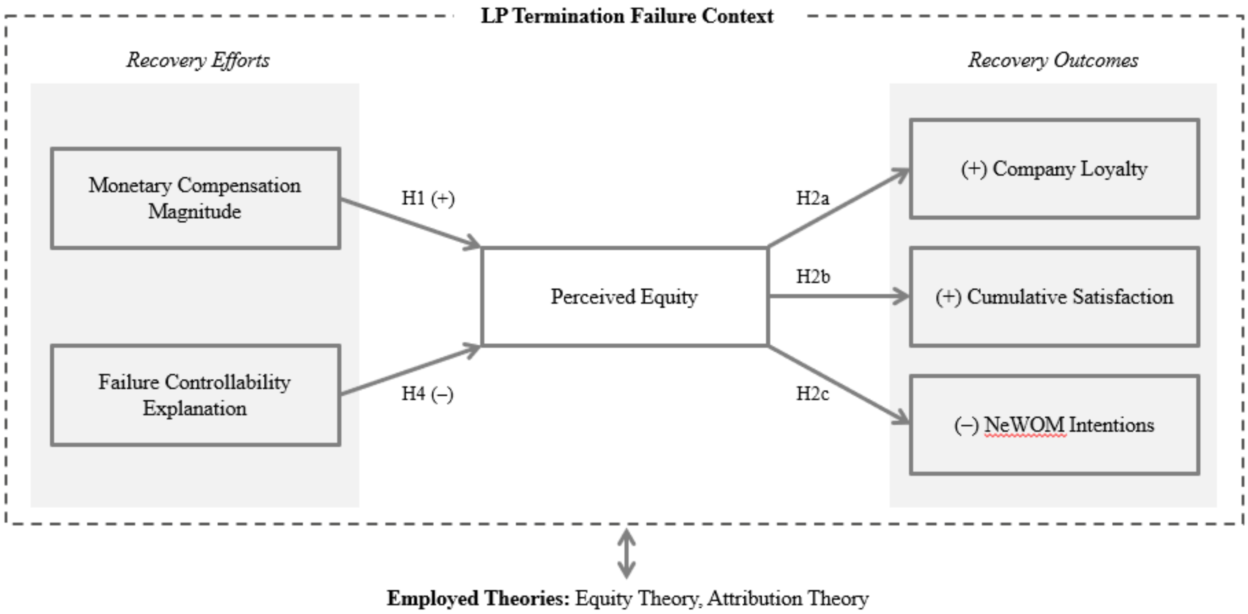
H4: Low failure controllability explanation will produce a higher level of perceived equity than high failure controllability explanation.

H4 and H2 imply a view of the impact of failure controllability on company loyalty, cumulative satisfaction and NeWOM intentions as mediated by perceived equity. To assess this aspect, the following is hypothesized:

H5: The impact of failure controllability explanation on (a) company loyalty, (b) cumulative satisfaction is positively mediated by perceived equity, while (c) NeWOM intentions is negatively mediated by perceived equity.

See the conceptual framework (Figure 1) for an overview of all the hypotheses and how they together explain the specific mediation hypotheses.

Figure 1: A Mediation Model for H3 and H5



2.2.4.3 Monetary Compensation Magnitude and Failure Controllability Explanation Interaction

Interaction effects of monetary compensation magnitude and failure controllability explanation are not hypothesized. This is because previous research demonstrates that, regardless of whether a company provides a high or low controllability failure explanation and provides monetary compensation or not, if the failure is unstable (or uncommon), customers will have similar evaluations (Grewal et al., 2008). Since an LP termination failure is expected to be perceived to occur infrequently and is uncommon, and will thus be perceived as an unstable failure, an interaction effect between compensation and controllability explanation is not expected.

2.2.5 Relationship Quality

As previous research has called for understanding how different types of segments might react to service recovery efforts (e.g., Grewal et al., 2008; Lee et al., 2021), the current study also considers relationship quality as a context variable that potentially moderates the effect on perceived equity of the recovery efforts. Relationship quality's effect on perceived equity is only considered because, as H3 and H5 mediation hypotheses imply, it is the all-important, key variable in explaining the eventual recovery outcomes. Relationship quality is "the extent, degree, or magnitude of the association between the customer and the service provider" (Cambra-Fierro et al., 2015, p. 112).

To provide a theoretical explanation of how relationship quality moderates equity perceptions of recovery efforts, two schools of thought must be explained. The first school of thought suggests a buffering or "love-is-forgiving" effect. This essentially posits that, because strong (vs. weak) relationship customers have a plethora of positive past experiences with the company, they are more understanding and willing to accept highly controllable failure explanations and inappropriate compensation offers following a failure (Lee et al., 2021; Roschk & Gelbrich, 2017). The second school of thought suggests an amplifying or "love-becomes-hate" effect. This essentially posits that, given strong (vs. weak) relationship customers' relationship with the company, they will be less understanding of highly controllable failures and feel entitled to receive generous compensation following a service failure (Grégoire et al., 2009; Lee et al., 2021; Roschk & Gelbrich, 2017). Given the contradictory arguments and the current study's focus on the effects of monetary compensation magnitude and failure controllability explanation recovery efforts, moderation effects are only explored and no formal hypotheses are submitted to empirical testing.

3. Methodological Approach

This chapter explains the methodology and approach used and the choices made in this study to answer the research question. To begin, the scientific approach and overall research design (section 3.1) is discussed to lead the way. The preparatory work (section 3.2), including the interviews probing the empirical field (section 3.2.1), stimuli selection (section 3.2.2) of manipulations and pre-study (section 3.2.3), will then be described. Furthermore, the main study (section 3.3), its related design, sample and key statistical measures will then be outlined. The chapter concludes with a discussion of the data quality (section 3.4).

3.1 Scientific Approach to The Research Design

The current study employs a deductive research methodology, grounded in existing theory but with hypotheses tested through empirical analysis (Bryman & Bell, 2015). In light of the purpose and research question of this study, the authors have the intention to test existing theoretical and empirical findings rather than developing new ones. Thus, a quantitative survey-based approach (Bryman & Bell, 2015) appeared appropriate. More specifically, the current study employed an experimental method, between-subjects design, as it creates opportunities for comparisons and thereby development of knowledge regarding the manipulations' effects, and further provides the opportunity to comment on causal relationships (Söderlund, 2010). To probe the empirical field of the rather uninvestigated context of LP termination failure within SFR, the study had support of qualitative interviews to complement and confirm plausible recovery efforts. While it would be an alternative to study LP termination failure solely using a qualitative approach, a quantitative approach was used due to the SFR literature boundaries. As SFR studies to a large extent are conducted using quantitative scenario designs (e.g., Choi & Mattila, 2008), this same approach was used but in the novel context of an LP termination.

Following this approach made it possible to fulfill the purpose of the current study, i.e., to further the understanding of how to successfully terminate an LP by quantitatively analyzing the effect which compensation and explanation recovery efforts have in mitigating negative reactions following the termination of an LP.

3.2 Preparatory Work

The process for preparing to conduct the main study consisted of three steps. In the first step, interviews probing the empirical field (section 3.2.1) were conducted with LP managers to identify the plausible recovery efforts they could foresee themselves employing should they need to terminate their LP. With this information, the second step was to select the recovery efforts to be used in the experiment (i.e., monetary compensation magnitude and failure controllability explanation) and decide how the stimuli (section 3.2.2) surrounding those efforts should be presented. Finally, in the third step, a quantitative pre-study (section 3.2.3) was conducted with the purpose to test and ensure that the manipulated stimuli that would later be used in the main study were perceived as significantly different. Summed together, the preparatory work sets the stage for the main study, ensuring validity and that the research question is answered appropriately.

3.2.1 Interviews Probing the Empirical Field

Interviews to probe the empirical field were conducted to gather an understanding of whether LP managers of different industries would even consider terminating their LP, what those same LP managers think they could benefit and lose from terminating the LP, and the plausible recovery efforts they could foresee themselves employing should they need to terminate their LP. This helped delimit the industry and the recovery effort focus of the current study. The following section will cover the interview process of probing the empirical field, starting with the design (section 3.2.1.1), its sample characteristics (section 3.2.1.2) and key findings (section 3.2.1.3).

3.2.1.1 Design

In designing the qualitative approach, the semi-structured interviews probing the empirical field followed Brinkmann & Kvale's (2014) seven steps for research interviews (see Appendix 2 for the in-depth design and Appendix 3 for interview questions).

3.2.1.2 Sample

Representatives from eight companies were interviewed (see Appendix 4 for informant overview). The informants represented companies in different industries and markets with roles closely connected to the company LP. Common for companies interviewed was that they operate on more than one market, ranging from global, European and Nordic presence (see Appendix 2 for the in-depth sampling process).

3.2.1.3 Key Findings

From thematizing the transcribed semi-structured interviews, the authors identified several interesting findings to guide the following study of the thesis subject (see Appendix 2 for an in-depth view of key findings).

First, while all B2C companies held a strong attachment and belief in their LPs, companies from the hotel and the airline industry were particularly fond of their LPs and could not foresee ever discontinuing their programs. Informants from the retail industry expressed hesitation towards terminating their LPs, but not to the same degree. Some of the informants also expressed uncertainty in regard to the actual effectiveness of the LP. Drawing from interviews with retail consultancy firms, it was clear that the LP-operating informants perhaps were slightly naive thinking the LP would last forever. The two consultancy interviews stated that the way LPs are managed today is not sustainable and thus they did not see the benefit of keeping LPs according to the current set-up. They further outlined that companies do not think through their decision to introduce LPs in the first place, as companies tend to implement and operate LPs because a vast majority of competitors have one. This links back to the same "me-too" pressure to maintain an LP that was referred to in the introduction section. Though, some informants stressed the willingness to fix what is wrong with the LP, at any cost, to avoid the ultimate termination of the program.

Second, all informants expressed missing out on customer data and statistics as the main factor holding them back from terminating their LP. In addition, informants saw revenue loss and communication channel loss as additional reasons for not terminating the LP. Connected to this, one of the consultancies explained that the digital landscape today allows companies to track data and communicate with customers even though it is not formally set up within an LP. Further, one of the informants expressed the desire to fix what is wrong with the LP to avoid needing to terminate it. In considering factors for why LP termination would be a viable option, the majority of informants expressed the cost element. This issue was two-fold, considering both the costs for maintaining the program and the cost of constantly providing customers with monetary rewards.

Finally, informants showed consensus when discussing potential recovery efforts to use if they were to terminate their LP. First, all the informants interviewed stressed the need to monetarily compensate the LP member for the termination. Giving some nuance, some informants expressed the need to balance the positive and the negative, i.e., providing compensation (positive) in light of the LP termination (negative). Further, one informant outlined the importance of compensation but to not overcompensate. The two consultancies see monetary compensation as an appropriate recovery effort as customers are used to it and thus it makes sense to leverage it even as the LP is to be terminated. Further, informants spelled out the importance of explaining why the LP termination is being executed. The majority of the informants said that providing members with an explanation is vital as it stresses protection and care for the members. Informants also felt they owe the members an explanation as they have been in a relationship for a long period of time. The views on how companies would put forth this explanation were opposing, however.

Some informants explained the importance of being transparent at any cost, making sure to not make things seem more pleasant or acceptable than they are. In contrast, others put forth that the explanation for the LP termination could be less transparent and even slightly twist the truth, if necessary, e.g., blaming it on external factors. As a final remark, the majority of the informants additionally mentioned an apology as a potential recovery effort, though they put forth that it is an obvious strategy that almost always is included when companies need to respond to disappointed customers.

3.2.2 Stimuli Selection

By this point, the authors considered several factors in deciding which recovery efforts would make most sense to apply in the context of an LP termination. Putting together the recovery efforts insights from the interviews probing the empirical field, how recovery efforts have been used in actual LP terminations (e.g., Monoprix and Uber), the recovery effort literature contribution and the practical applicability of recovery efforts in an LP termination context, the current study ultimately proceeded with monetary compensation magnitude and failure controllability explanation as the focal recovery efforts and independent variables for the main study.

Before the main study could be conducted, however, the stimuli for monetary compensation magnitude and failure controllability explanation needed to be carefully considered and pre-tested for perceived differences (section 3.2.3). The following sections explain the rationale behind how the pre-tested stimuli for monetary compensation magnitude (section 3.2.2.1) and failure controllability explanation (section 3.2.2.2) were constructed and justify why they are acceptable.

3.2.2.1 Monetary Compensation Magnitude

High vs. low monetary compensation magnitude conditions were constructed for the pre-study. This was operationalized in the scenario with a high 50% vs. a low 5% discount on the next purchase. They are presented as discount percentages as opposed to discount values because of the expected international nature of the sample in the main study, implying different domestic currencies. The high compensation condition being ten times greater in value than the low compensation condition was to ensure that a significant difference would be achieved in the pre-study. Moreover, while it may seem high, a 50% discount was operationalized as the high compensation condition because monetary compensation has been operationalized compensation with a monetary value as high as 50% of average prices of the firm in previous research contexts (Grewal et al., 2008) and should a LP operating company want to win back customers upon termination, they may need to face offering such compensation in reality. Similarly, previous research has operationalized monetary compensation in the form of a discount on the next purchase with the firm in that context (Grewal et al., 2008). When testing compensation magnitude in the current study a scale 1 through 3 (1 = No compensation, 2 = 5% discount and 3 = 50% discount) was adopted aimed at enhancing clarity and objectivity. This decision however comes with inherent limitations. The use of whole numbers sacrifices granularity, potentially oversimplifying the variable. The arbitrary value assignments and limited range (1 to 3) may also hinder sensitivity to detect subtle changes in compensation. The exact monetary compensation magnitude condition scenarios can be seen in Appendix 5.

3.2.2.2 Failure Controllability Explanation

High vs. low failure controllability explanation conditions were constructed for the pre-study. This was operationalized in the pre-study scenario with five different conditions: Two explanations of high controllability (e.g., changes in internal priorities) and three explanations of low controllability (e.g., changes in partners' supply chain). The reason why more than just one each of high vs. low failure controllability explanation conditions were developed for the pre-study was because the authors wanted the availability to select the two which were most different in terms of the decisive failure controllability/attribution measure. This would allow for better capturing of the variable and in turn improve validity. While the authors took inspiration from previous failure controllability explanation scenarios in SFR literature (e.g., Grewal et al., 2008; Wirtz & Mattila, 2004) and real-life LP communication examples (e.g., Roth, 2022; Monoprix, 2023), some creative liberty needed to be taken to draft scenarios. For that reason, the current study invokes arguments put forth by Festinger (1953), Perdue & Summers (1986) and Söderlund (2010) describing how experimenters frequently must create their own manipulations because it is often the case that no obvious credible alternatives are available for manipulating certain independent variables. The exact failure controllability explanation condition scenarios can be seen in Appendix 5.

3.2.3 Pre-Study: Stimuli Validation

The following sections will cover the design (section 3.2.3.1), sample (section 3.2.3.2) and the result (section 3.2.3.3) of the pre-study.

3.2.3.1 Design

As previously mentioned, the purpose of the pre-study is to verify that the constructed stimuli manipulations for high vs. low monetary compensation magnitude (from section 3.2.2.1) and high vs. low failure controllability explanation (from section 3.2.2.2) were perceived as significantly different for their respective decisive measures (i.e., perceived compensation and perceived controllability). With this, final stimuli could be selected and the authors could be confident that the manipulations applied in the main study for each respective recovery effort were perceived as significantly different and thus high in validity. Seven conditions in total were tested. For monetary compensation magnitude, the two scenario conditions constructed in the stimuli selection were tested: High (50% discount on next purchase) vs. low (5% discount on next purchase). For failure controllability explanation, the five scenario conditions constructed in the stimuli selection were also tested. The pre-study is therefore a quantitative study and the online tool Qualtrics was used to create the survey.

An overview of the study setup will be described in the paragraphs below. The respondents were first presented with a GDPR message explaining that answers collected throughout the survey will be handled in accordance with GDPR regulations. The GDPR message ended with a question asking the respondent if they consent to voluntarily partake in the survey. If the respondent chose to not partake, they could not proceed to answer the survey.

On the next page, all respondents were then asked to take a moment to imagine a retail company (e.g., within grocery, fashion or electronics) of which they are an actual, formal LP member. It was also expected that the LP they thought of should offer some monetary rewards (e.g., discounts, cashbacks or vouchers) based on buying behavior. This is in line with the delimitations in section 1.4.

On the next page, respondents were randomly exposed to one of the seven conditions. If respondents were exposed to one of the five failure controllability explanation conditions, they were immediately met on the next page with a three-item controllability manipulation check that was adapted from Bitner (1990) and Wirtz & Mattila (2004). The items asked respondents how much they agreed with the following statements: “The reason for the loyalty program termination is something the company had control over”, “The company is responsible for the termination of the loyalty program” and “The loyalty program termination occurred due to factors that were controllable by the company”. Agreeance was captured on a seven-point Likert scale ranging from “Completely disagree” to “Completely agree”. On the other hand, if respondents were exposed to one of the two compensation magnitude conditions, they were immediately met on the next page with a self-made compensation manipulation check. Their opinion of the compensation offered to them in the scenario was measured with three, self-made bipolar scale items: low/high, small/large, ungenerous/generous. This was captured on a seven-point Likert scale as well. Respondents then answered a one item scenario realism question that was adapted from Hwang et al. (2020): “It was easy to project myself in the scenario”, ranging from “Completely disagree” to “Completely agree”. This too was captured on a seven-point Likert scale.

3.2.3.2 Sample

The survey was distributed online (from February 23rd to March 2nd) using Prolific and by personally sharing an anonymous link to the questionnaire with individuals in the authors' social networks. In total, the pre-study received 220 answers with 105 of those respondents being Prolific respondents. Each of the seven conditions had 30 or more valid cases, in line with the rule of thumb put forth by, for instance, Saunders et al. (2009) and Stutely (2003). No demographic data was collected as it was deemed unnecessary to gather such information considering the purpose of the pre-study.

3.2.3.3 Result

To confirm that the statements, or measurement items, of each variable were in fact similar and measuring the same thing, a reliability analysis was conducted. The Cronbach's alpha for the compensation (0.963) and controllability (0.819) measurement items were both higher than the standard value of 0.7 and could thus be indexed (Söderlund, 2018).

The manipulations for monetary compensation magnitude and failure controllability explanation worked as intended. To check that the two high vs. low compensation magnitude conditions were significantly different in terms of the perceived magnitude of the compensation offer, an independent sample t-test was used. The test used a 95% confidence interval, implying a significance level of $p = 0.050$. Offering high (50% discount on next purchase) vs. low (5% discount on next purchase) compensation leads to significantly higher levels of perceived compensation ($M_{\text{high\_compensation}} = 3.73$, $M_{\text{low\_compensation}} = 2.13$; $p < 0.001$). These conditions for compensation magnitude were thus deemed appropriate to use in the main study.

In checking the five failure controllability explanation conditions, an ANOVA Scheffe test was employed. Post-hoc analysis revealed that the greatest difference in terms of controllability perceptions occurred between the explanation pinning the termination down to changes in internal priorities ($M_{\text{high\_control}} = 5.89$) and the explanation pinning the termination down to changes in laws and regulations ($M_{\text{low\_control}} = 3.82$; $p < 0.001$). These high vs. low failure controllability explanations were thus employed as stimuli in the main study. Across all 200 respondents and various conditions, respondents also generally perceived these scenarios as realistic ($M_{\text{realism}} = 5.63$ vs. scale midpoint 4.00, $p < 0.001$). Comparing with the scale midpoint in this manner is important because if the average rating had been close to the scale midpoint, it would indicate a lack of consensus or ambiguity in the respondents' perception of realism. And as the study is trying to further understand equity theory, a theory that relates with human psychology, a lack of consensus or ambiguity about the respondents opinion of the agreement or disagreement with the realism of the situation would render the study irrelevant. Therefore, no changes were made to make the scenarios more realistic before the main study was conducted using these same scenarios.

3.3 Main Study

The following sections will cover the design (section 3.3.1), sample (section 3.3.2) and the key statistical measures (section 3.3.3) of the main study.

3.3.1 Design

The main study employed a 3 × 2 × 2 between-subject, experimental scenario-based design with reality elements. The between-subject factors are the following: The compensation magnitude offer (high compensation [50% discount on next purchase] vs. low compensation [5% discount on next purchase] vs. no compensation [no compensation offer]), the company provided failure explanation (high controllability [internal priorities change] vs. low controllability [laws and regulation change]), and the relationship quality with the company the LP belongs to (high relationship quality vs. low relationship quality). The appropriateness of this design in SFR has been well demonstrated by several studies (e.g., Choi & Mattila, 2008; Grewal et al., 2008; Hwang et al., 2020). The design regards monetary compensation magnitude and failure controllability explanation as independent variables while relationship quality is seen as a context moderating variable. The full factorial design was chosen for two main reasons. First, it allowed for realistic manipulations as recovery efforts often are offered in combination in a retail service failure context (Roth, 2022). Second, even though the current study did not expect an interaction effect between compensation and controllability explanation given the unstable nature of the LP termination failure (Grewal et al., 2008), the authors wanted to assess if the conclusion still holds in the LP context. Given the design's nature, the study resulted in twelve different cells where each participant was randomly exposed to only one of the twelve conditions (see Appendix 6). The twelve cells a respondent could potentially be exposed to are outlined in Table 1.

Table 1. Experiment Conditions

#	Relationship Quality	Controllability	Compensation
1	High	High	High
2	High	High	Low
3	High	High	None
4	High	Low	High
5	High	Low	Low
6	High	Low	None
7	Low	High	High
8	Low	High	Low
9	Low	High	None
10	Low	Low	High
11	Low	Low	Low
12	Low	Low	None

A self-completion questionnaire was employed as the research technique due to the quantitative approach of the study (Bryman & Bell, 2015). This technique is a favorable way to collect unobservable data such as customer opinions and attitudes, and it also allows for the collection of data from a large group of respondents (Bhattacherjee, 2012). An overview of the study setup will be described in the paragraphs below. For a detailed review, an example questionnaire is provided in Appendix 7.

The study started with respondents reading introductory instructions and agreeing to the GDPR message (same as in the pre-study). Next, respondents were exposed to the beginning of one of the twelve randomized cells where they were asked to imagine a retail company and corresponding LP of which they are an actual member of, and that offers some monetary rewards (e.g., discounts, cashbacks or vouchers) based on buying behavior. In addition, the study wanted to ensure that respondents considered a stand-alone LP by asking them to imagine "a stand-alone program, i.e., a program that is only connected to the single retail firm, vendor or brand". Lastly, respondents were asked to either imagine a company they have a strong or a weak relationship with (depending on which manipulated cell they were assigned to).

Respondents were then promptly asked, "*Can you imagine a retail company and corresponding loyalty program that meets all of the above criteria?*". If the respondent could not imagine such a company/program they were immediately sent to the end of the survey and did not continue with the scenario experiment, nor did they answer any questions. As such, this question acted as a control of valid responses and respondents that could not think of a company/program were thus removed from the sample (see section 4.1 for how many respondents were removed).

On the next page, respondents were asked to fill in the name of the company which they had previously imagined in order to make the company and corresponding LP even more present in the respondents' mind. This was later used as a placeholder (piped text) in the scenario description entailing the LP termination failure controllability explanation and offered monetary compensation magnitude. Before moving on to the scenario, respondents were asked to assess their perceived relationship quality in response to three items adopted from Lee et al. (2021) (see Table 2 in section 3.3.3).

On the page before measurement of dependent variables, respondents were exposed to the scenario explaining that the company had decided to terminate the LP along with the respective manipulations (the twelve cells are outlined in appendix 6). On the final page, respondents answered questions concerning manipulation checks, dependent variables and demographics.

3.3.2 Sample

Considering that the target respondent group is anyone who is a member of an LP, it was deemed acceptable to use a convenience sample as most adults are members of at least one LP (Statista, 2018). Therefore, the survey was created using Qualtrics and then broadly distributed online (from March 14th to March 26th) using Prolific and by personally sharing an anonymous link to the questionnaire with individuals in the authors' social networks through public sharing on social media or through private messaging.

In total, 739 survey responses were recorded at the time of exporting the data. Of those 739 respondents, 338 were recruited using Prolific. Some of the 739 respondents were, however, rendered invalid after conducting various control checks (see section 4.1). Ultimately though, each of the twelve conditions had 30 or more valid cases, in line with the rule of thumb put forth by, for instance, Saunders et al. (2009) and Stutely (2003).

Demographic data collected included age and gender. Accounting for control checks reducing the sample size to 657 (see section 4.1), respondent ages ranged from 18 to 82 with an average age of 45. Regarding gender, 62.9% of respondents identified as women, 36.7% of respondents identified as men and 0.5% preferred not to say. The larger fraction of women and the average age of respondents is representative of the LP member base as more women are LP members than men (Statista, 2021a) and 69% of 45–54-yearolds are subscribed to an LP (Statista, 2021b). To ensure the difference in the proportion of gender and age between the 12 groups was not significant, 2-sided Pearson's Chi-square tests were conducted. These tests confirmed that there was no significant difference in the gender or age proportions (p = 0.294 for gender and p = 0.147 for age).

While country of origin was not measured, it can be assumed that the respondent group is international and diverse as respondents from the authors' social networks likely came from the United States or Sweden given the authors' backgrounds. Moreover, Prolific respondents were sourced from the United Kingdom, providing greater sample diversity. The United Kingdom was chosen as an appropriate market given English being the official language and being the second largest consumer market in Europe (The World Bank, 2021).

3.3.3 Key Statistical Measures

All statements/measures were recorded on seven-point Likert scales. These were either measured on an agreeance (1 = Completely disagree, 7 = Completely agree) or a bipolar scale. In accordance with Söderlund (2018), variables with multi-item scales with a Cronbach's alpha value > 0.7 were combined into indexes. All variables had Cronbach's alpha values > 0.7. See Appendix 8 for a summary of Cronbach's alpha values.

Measures were adapted to make statements easier for non-native English speakers to understand (our sample potentially having several), to change the statement to specifically refer to a retailer or to the termination of the LP, or to reduce the number of measurement items from the original measure. The questions were bundled into categories presented for respondents in the following order: (1) manipulation checks, (2), dependent variables, (3) mediators, (4) demographics. It should be noted that in addition to company loyalty, customer satisfaction and NeWOM dependent variables, patronage reduction was measured (as seen in Appendix 7), but was ultimately discluded from further analysis. This is because the wording of the question items related to this patronage reduction variable were not reformulated from a B2B perspective to a more B2C perspective as it should be given the consumer nature of the respondent sample. Table 2 outlines the key statistical measures in the survey, which articles they were adapted from and the specific items that were used.

Table 2. Key Statistical Measures

Measure	Scale	Adapted from	Item(s)
Relationship quality	Three item agreeance	Kwon & Jang (2012)	“I have a strong relationship with this company”, “I am satisfied with the relationship I have with this company”, “I have trust in this company”
Perceived compensation magnitude	One item bipolar	Self-made	“In my opinion, the compensation offered to me by the company in this scenario is small/large”
Perceived failure controllability	One item agreeance	Choi & Mattila (2008)	“The reason for the loyalty program termination is something the company had control over”
Perceived failure stability	One item agreeance	Grewal et al. (2008)	“The termination of the loyalty program is an uncommon occurrence for this company”
Company loyalty	Three item agreeance	Schumann et al. (2014), Zeithaml et al. (1996), Grewal et al. (2008)	“I would continue to purchase products from this retailer”, “I would recommend this retailer to friends and family”, “This retailer is my first choice when it comes to purchasing ‘xyz’ products”
Customer satisfaction*	Three item agreeance	Söderlund & Colliander (2015)	“How satisfied or dissatisfied are you with this company?”, “To what extent does this company meet your expectations?”, “Imagine a company that is perfect in every respect. How near or far from this ideal do you find this company?”
Negative online word-of-mouth (NeWOM)	Three item agreeance	Wirtz & Mattila (2003), Nazifi et al. (2021), Grégoire et al. (2009)	“Given the program termination, it is likely that I will tell friends and relatives through social media to not do business with this company”, “Given the program termination, it is likely that I will warn friends and relatives through social media to not shop at the company”, “Given the program termination, it is likely that I will complain through social media to friends and relatives about this company”
Perceived equity	Three item agreeance	F.-Y. Pai et al. (2018), Olsen & Johnson (2003)	“The company was concerned about my inconvenience due to the loyalty program termination”, “The company handled the loyalty program termination appropriately”, “The outcome I received from the company was fair relative to my input in the loyalty program”
Realism	One item agreeance	Hwang et al. (2020)	“It was easy to project myself in the scenario”

*While it is possible for this item to measure both transaction-specific and cumulative customer satisfaction, the current study captures the satisfaction from a cumulative perspective as the data collection approach with scenarios implies the respondent should have a real, long-term relationship with the LP being terminated

3.4 Data Quality

In business and management research, there are several data quality criteria to keep in mind. The following sections discuss the reliability (section 3.4.1) and validity (section 3.4.2) of the data.

3.4.1 Reliability

Reliability "refers to the accuracy and precision of the measurement and absence of differences in the results if the research were repeated" (Collis & Hussey, 2014, p. 217). Several actions were taken to ensure reliability of the current study. First, reliability was ensured by using several observations of the variables to be measured (Söderlund, 2018), i.e., multi-item measurements. Many of the multi-item measurements that captured entire variables in the current study were adapted from previous studies which had already confirmed their reliability by revealing Cronbach's alpha coefficients that were higher than 0.7, a widely used test for internal reliability checks of multi-item measurements (Collis & Hussey, 2014) To be certain that the multi-item measurements in the current study also had high reliability, Cronbach's alpha coefficients were tested. All Cronbach's alphas were higher than 0.7, indicating a high level of internal consistency and reliability (see appendix 8 for Cronbach's alpha values).

3.4.2 Validity

As the measurement-based aspect of validity should be kept separate from the concepts of internal and external validity which concern the experimental design (Söderlund, 2018), measurement validity is assessed in section 3.4.2.1, internal validity is assessed in section 3.4.2.2 and external validity is assessed in section 3.4.2.3.

3.4.2.1 Measurement Validity

Measurement validity is the "extent to which a measurement in fact measures what it is intended to measure" (Söderlund, 2018, p. 136). This can be broken down into content and nomological validity. Content validity is about comparing the specific content of your measure with what theory has to say is the content of the measure. Content validity of the measurements is ensured in the current study as there is a high overlap between the contents of the questions/response options and the contents of the theoretical variables measured (Söderlund, 2018). For example, the theoretical definition of the perceived equity variable implies a cumulative perspective and a transactional perspective, as mentioned in the conceptual background. The items measuring this variable captured the cumulative and transactional perspective as it asked about how appropriately the respondents felt the company handled the LP termination (more transactional) and whether or not the outcome the respondent received from the company was fair relative to their input in the LP (more cumulative). The questions and options for company loyalty, cumulative satisfaction and NeWOM intentions similarly overlap with their respective theoretical definitions.

Nomological validity is about what theory has to say about relationships between variables. As the conceptual background already argues, the variables put forth in the current study are glued together via equity theory and are thus highly related in causal terms to each other (Söderlund, 2018). In other words, the study has strong nomological validity because equity theory argues that the focal theoretical variable of perceived equity relates causally to company loyalty, cumulative satisfaction and NeWOM intentions, and so, those variables were also measured in the main study.

3.4.2.2 Internal Validity

Internal validity "refers to the extent to which the treatment explains participant reactions in an experiment" (Söderlund, 2018, p. 172). That is, the causal relationship is not influenced by other variables or factors. As it relates to variables in the study itself, some concern for internal validity might arise since the employed full-factorial design implies "contamination" of other variables when analyzing the participant reactions to one treatment. It is argued, however, that the effect of the treatments of the other variables are negligible as a full spectrum of the treatments of the other variables is captured in the background to the treatment in focus. For example, the high compensation treatment of the compensation magnitude variable captures the full spectrum of failure controllability explanation treatments (i.e., from low to high) and relationship quality treatments (i.e., from low to high). Therefore, because individual treatments contain the other variables and their respective spectrums of low and high treatments, the effect of the other variables/treatments is negligible and thus treatments do explain respondents' reactions.

Internal validity may also be threatened by factors other than the treatment that may affect reactions (Söderlund, 2018). The internal validity of the current study is considered strong from this perspective as many threatening factors did not present an issue thanks to the experimental design (Bhandari, 2020). For example, selection bias was largely eliminated thanks to the study's between-subject experimental design, implying a random allocation of respondents (Söderlund, 2018). Because respondents took the survey individually online, did not know which treatment group they were part of and were "blinded" from the aim of the study, social interaction effects were also mitigated (Bhandari, 2020). Finally, because the survey was kept intentionally short (under 5 min) and thus respondents should not have dropped out, lost focus or become disturbed by unrelated events, attrition bias, maturation and history effects should also be minimal.

3.4.2.3 External Validity

External validity "refers to what extent the results from an experiment may be assumed to be valid in other situations" (Söderlund, 2018, p. 173-174). As internal validity is at hand and threatening factors to external validity are accounted for through the experimental design and sampling methods, the current study is generalizable and thus has a high external validity (Söderlund, 2018). Threatening factors to generalizability like respondents being exposed to more than one treatment are avoided through the between-subjects nature of the experimental design, implying respondents are exposed to only one treatment. Although the experiment describes a hypothetical scenario where an LP is being terminated, the threatening factor of artificiality of the experimental situation is mitigated by asking respondents to imagine a real LP they actually belong to before being exposed to the fictitious scenario. Finally, the concern that the selection of respondents or that the sample is not representative should be reduced because, as seen in section 3.3.2, the gender distribution and average age of the sample was representative of LP member bases. Moreover, the fact that the sample is international is representative of the global nature of the LP market and member base (Best Western, 2023; H&M Group, 2020; Ingka Group, 2020). Additionally, a large sample size of over 600 respondents provides statistical validity. Moreover, the high overall realism perceptions of respondents means that the study was considered realistic and thus makes the findings more generalizable.

While compensation is offered in the form of a discount on the next purchase in the current study, the findings are generalizable to situations where compensation is offered in alternative forms (e.g., a free month off a service, cash, a free bag) because the variable captures the value or magnitude of the compensation and not the medium or type of compensation. Thus, the findings can be generalized for any kind of compensation, just as long as the value of the offered compensation is equivalent to the value of the operationalized compensation conditions in this study.

Since the current study investigated LP termination recovery in the retail industry specifically, the findings are only slightly generalizable to other industries because negative LP termination reactions are particularly stronger when a company terminates an LP in an industry where a larger share of firms have LPs. Thus, the findings may not be as generalizable if the industry has a smaller share of firms with LPs than retail, as the initial termination reactions might be far less severe.

4. Empirical Results and Analysis

The chapter will start to explain the process of how the testable sample was decided on by showing control and manipulation checks (section 4.1). Following that, the findings of the statistical testing of the hypotheses (section 4.2) will be presented before context effects are analyzed (section 4.3)

4.1 Control and Manipulation Checks

Two control questions were responsible for reducing the number of respondents from 739 to 657 respondents. The first control question was the question of asking respondents if they could or could not think of a company and corresponding LP that met all the criteria in the opening scenario. A total of 77 respondents could not think of such a company/ LP and were thus removed from the sample. The second control question was a simple attention check asking respondents to select the number 8. Two respondents failed to select the number 8 and were thus removed from the sample. Finally, three respondents whose age was not registered were removed from the sample. Ultimately, 82 respondents were removed from the sample, yielding the remaining 657 respondents.

In total, five manipulation checks of perceptions are conducted: perceived (1) realism, (2) compensation, (3) relationship quality, (4) controllability of the failure, (5) stability of the failure. All manipulation checks pass and are significant. Beginning with (1) perceived realism, respondents viewed the scenario as something which was realistic ($M_{\text{realism}} = 5.57$ vs. scale midpoint 4.00, $p < 0.001$). To check (2) perceived compensation, the twelve cells were merged into the three compensation groups: high, low and no compensation. Just as the pre-study already confirmed, Scheffe post-hoc results of a one-way ANOVA showed that respondents who received the high compensation condition ($M_{\text{high\_compensation}} = 4.22$) rated perceived compensation significantly higher than their counterparts in the low compensation condition ($M_{\text{low\_compensation}} = 2.04$; $p < 0.001$) and no compensation condition ($M_{\text{no\_compensation}} = 2.16$; $p < 0.001$). To check for (3) perceived relationship quality, the twelves cells were merged into two relationship quality groups: high and low. Results of an independent samples t-test showed that respondents that were told to imagine a company that they had a high relationship quality with rated their perceived relationship quality significantly higher than their counterparts who were told to imagine a company that they had a low relationship quality with ($M_{\text{highRQ}} = 5.4061$, $M_{\text{lowRQ}} = 3.6942$; $p < 0.001$). To check for (4) perceived controllability of the failure, the twelve cells were merged into two controllability groups: high and low. Results of an independent samples t-test showed that respondents that were told that the LP termination occurred due to changes in internal priorities (high controllability) rated perceived controllability of the failure significantly higher than their counterparts who were told that the LP termination occurred due to changes in laws and regulations (low controllability) ($M_{high\_control}$ = 5.52, $M_{low\_control}$ = 3.87; $p < 0.001$). Finally, in checking for (5) perceived stability of the failure, respondents overall viewed the LP termination to be an unstable failure ($M_{stability}$ = 5.44 vs. scale midpoint 4.00, $p < 0.001$). This is important because the stability dimension of attribution can then be assumed to be constant.

4.2 Hypothesis Testing

The following sections report the results of the experiment in order of how the hypotheses were developed in the conceptual background. Results for H1, H2 and H3 are given in section 4.2.1, while results for H4 and H5 are given in section 4.2.2. All hypotheses were supported. Overall descriptive statistics for key measures are provided in Appendix 9.

4.2.1 Monetary Compensation Magnitude

With respect to H1, a one-way ANOVA test was run with perceived equity as the dependent variable and monetary compensation magnitude as the factor. The omnibus ANOVA result showed that all perceived equity means were not equal between the compensation groups, F (2, 654) = 24.326, $p < 0.001$. Post-hoc tests (Scheffe was used since groups were of unequal size) revealed that perceived equity was significantly higher for respondents who received high monetary compensation (M = 4.20) compared to those who received low monetary compensation (M = 3.29; $p < 0.001$) or no monetary compensation (M = 3.53; $p <$ 0.001). This supports H1. While perceived equity was higher for the no compensation group (M = 3.53) compared to the low compensation group (M = 3.29), the difference was not statistically significant (p = 0.224). Interestingly, however, low compensation had lower perceived equity ratings compared to no compensation.

Regarding H2, that perceived equity is positively correlated to (a) company loyalty, (b) cumulative satisfaction and negatively correlated to (c) NeWOM intentions, three separate Pearson correlations were conducted. The correlation between perceived equity and (a) company loyalty was positive and significant (r = 0.479, $p < 0.001$). This supports H2a. The correlation between perceived equity and (b) cumulative satisfaction was positive and significant (r = 0.432, $p < 0.001$). This supports H2b. And the correlation between perceived equity and (c) NeWOM intentions was negative and significant (r = -0.334, $p < 0.001$). This supports H2c.

For H3, stating that the impact of monetary compensation magnitude on (a) company loyalty, (b) cumulative satisfaction and (c) NeWOM intentions is mediated by perceived equity, three separate simple mediation analyses were conducted using PROCESS by AF Hayes. All variables were not standardized. The independent variable was monetary compensation magnitude (scored as 1 for no compensation, 2 for low compensation and 3 for high compensation). The mediating variable was perceived equity and the dependent variables were (a) company loyalty, (b) cumulative satisfaction and (c) NeWOM intentions. Hayes' Model 4 categorical mediation assessment indicated that monetary compensation magnitude had a positive impact on perceived equity ($b = 0.339$, $p < 0.001$), thus providing further support for H1. Perceived equity, in turn, had a positive impact on (a) company loyalty ($b = 0.500$, $p < 0.001$) and (b) cumulative satisfaction ($b = 0.414$, $p < 0.001$), and a negative impact on (c) NeWOM intentions ($b = -0.330$, $p < 0.001$). This provides further support for H2.

For company loyalty, the direct link to monetary compensation magnitude in addition to the mediator was significant ($b = -0.149$, $p = 0.019$). However, there was a significant positive indirect effect from the bootstrap analysis of 0.169 (5000 bootstrap samples, 95% CI limits 0.101 and 0.242), thus suggesting that the effect of compensation magnitude on company loyalty was mediated by perceived equity. H3a was thus supported. Given that the direct effect of monetary compensation magnitude on company loyalty was significant and of opposite sign to the indirect effect coefficient, the outcome suggests that competitive mediation was at hand (Zhao et al., 2010).

For cumulative satisfaction, the direct link to monetary compensation magnitude in addition to the mediator was not significant ($b = -0.099$, $p = 0.102$). However, there was a significant positive indirect effect from the bootstrap analysis of 0.140 (5000 bootstrap samples, 95% CI limits 0.084 and 0.200), thus suggesting that the effect of compensation magnitude on cumulative satisfaction was mediated by perceived equity. H3b was thus supported. Given that the direct effect of monetary compensation magnitude on cumulative satisfaction was not significant, the outcome suggests that full mediation was at hand (Zhao et al., 2010).

For NeWOM intentions, the direct link to monetary compensation magnitude in addition to the mediator was not significant ($b = 0.001$, $p = 0.987$). However, there was a significant negative indirect effect from the bootstrap analysis of -0.112 (5000 bootstrap samples, 95% CI limits -0.164 and -0.065), thus suggesting that the effect of compensation magnitude on NeWOM was mediated by perceived equity. H3c was thus supported. Given that the direct effect of monetary compensation magnitude on NeWOM intentions was not significant, the outcome suggests that full mediation was at hand (Zhao et al., 2010).

The results are summarized in Table 3. Moreover, all simple mediation models for each DV with the path coefficient and SE of the respective a, b, and c' paths, per Zhao et al. (2010) mediation analysis, are provided in Appendix 9.

Table 3. Perceived Equity Mediation of Monetary Compensation Magnitude on DVs Analysis Summary

Relationship	Total Effect	Direct Effect	Indirect Effect	Bootstrap Confidence Interval		SE	Conclusion
				Lower Bound	Upper Bound		
Monetary Compensation Magnitude → Perceived Equity → Company Loyalty	0.021 (0.772)	-0.149 (0.019)	0.169	0.101	0.242	0.035	Competitive Mediation
Monetary Compensation Magnitude → Perceived Equity → Cumulative Satisfaction	0.041 (0.531)	-0.099 (0.102)	0.140	0.084	0.200	0.030	Full Mediation
Monetary Compensation Magnitude → Perceived Equity → NeWOM Intentions	-0.111 (0.111)	0.001 (0.987)	-0.112	-0.164	-0.065	0.025	Full Mediation

Although not hypothesized, the direct effect of compensation magnitude on the dependent variables (i.e., company loyalty, cumulative satisfaction and NeWOM intentions) is reported. This is because, although this relationship is not often conceptualized in service failure conceptual frameworks and not implied by theory (and thus not hypothesized for in the conceptual background), the reader of the current study may still be curious about the direct effect which compensation magnitude has on the dependent variables. To test this, three separate one-way ANOVAs were employed for each dependent variable. The groups are distinguished solely by which compensation magnitude respondents received (i.e., high, low or none) and thus controls for, or is irrespective of, which controllability manipulation the respondent received. The tests used a 95% confidence interval, implying a significance level of p = 0.050. The respective omnibus ANOVA tests for each dependent variable showed that the means between groups were not significantly different. For company loyalty: F (2, 654) = 1.406, p = 0.246; for cumulative satisfaction: F (2, 654) = 0.197, p = 0.821; for NeWOM: F (2, 654) = 1.383, p = 0.251. Therefore, no post-hoc tests were conducted. See Table 4 for the mean values and standard deviations of monetary compensation magnitude's direct effects on all key variables.

Table 4. Descriptive Statistics of Monetary Compensation Magnitude

	Mean	Std. Deviation
High Compensation		
Perceived Equity	4.205	1.409
Company Loyalty	4.228	1.465
Customer Satisfaction	4.144	1.310
NeWOM Intentions	1.951	1.353
Low Compensation		
Perceived Equity	3.293	1.499
Company Loyalty	4.005	1.525
Customer Satisfaction	4.106	1.388
NeWOM Intentions	2.119	1.492
No Compensation		
Perceived Equity	3.528	1.351
Company Loyalty	4.187	1.466
Customer Satisfaction	4.061	1.426
NeWOM Intentions	2.173	1.507

4.2.2 Failure Controllability Explanation

With respect to H4, that a low controllability failure explanation will produce higher levels of perceived equity than a high controllability failure explanation, an independent sample t-test is run with perceived equity as the dependent variable. The means between the high and low controllability groups were significantly different (t (655) = 3.685, $p < 0.001$, $d = 0.288$). Thus, H4 is supported.

For H5, stating that the impact of a failure controllability explanation on (a) company loyalty, (b) cumulative satisfaction and (c) NeWOM intentions is mediated by perceived equity, three separate simple mediation analyses were conducted using PROCESS by AF Hayes. All variables were not standardized. The independent variable was failure controllability explanation (scored as 1 for low controllability and 2 for high controllability). The mediating variable was perceived equity and the dependent variables were (a) company loyalty, (b) cumulative satisfaction and (c) NeWOM intentions. Hayes' Model 4 categorical mediation assessment indicated that failure controllability explanation had a negative impact on perceived equity ($b = -0.419$, $p < 0.001$), thus providing further support for H4. Perceived equity, in turn, had a positive impact on (a) company loyalty (b = 0.476, p < 0.001) and (b) cumulative satisfaction (b = .403, p < 0.001), and a negative impact on (c) NeWOM intentions (b = -0.317, p < 0.001). This provides further support for H2.

For company loyalty, the direct link to failure controllability explanation in addition to the mediator was not significant (b = -0.182, p = 0.078). However, there was a significant negative indirect effect from the bootstrap analysis of -0.199 (5000 bootstrap samples, 95% CI limits -0.312 and -0.095), thus suggesting that the effect of failure controllability on company loyalty was mediated by perceived equity. H5a was thus supported. Given that the direct effect of failure controllability explanation on company loyalty was not significant, the outcome suggests that full mediation was at hand (Zhao et al., 2010).

For cumulative satisfaction, the direct link to failure controllability explanation in addition to the mediator was not significant (b = -0.023, p = 0.816). However, there was a significant negative indirect effect from the bootstrap analysis of -0.169 (5000 bootstrap samples, 95% CI limits -0.264 and -0.078), thus suggesting that the effect of failure controllability on cumulative satisfaction was mediated by perceived equity. H5b was thus supported. Given that the direct effect of failure controllability explanation on cumulative satisfaction was not significant, the outcome suggests that full mediation was at hand (Zhao et al., 2010).

For NeWOM intentions, the direct link to failure controllability explanation in addition to the mediator was significant (b = 0.268, p = 0.013). However, there was a significant positive indirect effect from the bootstrap analysis of 0.133 (5000 bootstrap samples, 95% CI limits 0.060 and 0.217), thus suggesting that the effect of failure controllability on NeWOM intentions was mediated by perceived equity. H5c was thus supported. Given that the direct effect of failure controllability explanation was significant and is the same sign as the indirect effect coefficient, the outcome suggests that complementary mediation was at hand (Zhao et al., 2010).

The results are summarized in Table 5. Moreover, all simple mediation models for each DV with the path coefficient and SE of the respective a, b, and c’ paths are in Appendix 10.

Table 5. Perceived Equity Mediation of Failure Controllability Explanation on DVs Analysis Summary

Relationship	Total Effect	Direct Effect	Indirect Effect	Bootstrap Confidence Interval		SE	Conclusion
				Lower Bound	Upper Bound		
Failure Controllability Explanation → Perceived Equity → Company Loyalty	-0.381 (0.001)	-0.182 (0.078)	-0.199	-0.312	-0.095	0.056	Full Mediation
Failure Controllability Explanation → Perceived Equity → Cumulative Satisfaction	-0.191 (0.074)	-0.023 (0.816)	-0.169	-0.264	-0.078	0.048	Full Mediation
Failure Controllability Explanation → Perceived Equity → NeWOM Intentions	0.401 (0.000)	0.268 (0.013)	0.133	0.060	0.217	0.040	Complementary Mediation

Although not hypothesized, the total effect of failure controllability explanation on the dependent variables is reported. This is because, although this relationship is not often conceptualized in service failure conceptual frameworks and not implied by theory (and thus not hypothesized for in the conceptual background), the reader of the current study may still be curious about the total effect which high and low failure controllability explanations have on the dependent variables. To test this, three separate independent samples t-tests were employed for each dependent variable. The groups are distinguished solely by which controllability explanation respondents received (high or low) and thus controls for (or is irrespective of) which compensation magnitude or relationship quality manipulation the respondent received. The tests used a 95% confidence interval, implying a significance level of $p = 0.050$. The independent sample t-tests showed that the means between the high and low groups were significantly different for company loyalty (t (640) = 3.302, $p = 0.001$, $d = 0.258$) and NeWOM intentions (t (618) = -3.550, $p < 0.001$, $d = -0.278$), but not cumulative satisfaction (t (643) = 1.785, $p = 0.075$, $d = 0.140$). See Table 6 for the mean values and standard deviations of failure controllability explanation's total effects on all key variables.

Table 6. Descriptive Statistics of Failure Controllability Explanation

	Mean	Std. Deviation
High Controllability		
Perceived Equity	3.460	1.473
Company Loyalty	3.945	1.564
Customer Satisfaction	4.006	1.444
NeWOM Intentions	2.285	1.590
Low Controllability		
Perceived Equity	3.879	1.441
Company Loyalty	4.326	1.386
Customer Satisfaction	4.198	1.298
NeWOM Intentions	1.884	1.280

4.2.3 Monetary Compensation Magnitude and Failure Controllability Explanation Interaction

Although not hypothesized, interaction effects of controllability and compensation were analyzed. A two-way ANOVA was conducted that examined the effect of controllability and compensation on perceived equity. As expected, the result of the omnibus ANOVAs did not provide evidence for a statistically significant interaction between the effects of controllability and compensation, F (2, 651) = 0.589, p = 0.555. There were, however, statistically significant main effects for compensation, F (2, 651) = 25.403, p < 0.001, and controllability, F (1, 651) = 15.515, p < 0.001. This provides further support for H1 and H4. See Table 7 for the mean values and standard deviations of monetary compensation magnitude and failure controllability explanation interaction effects on all key variables.

Table 7. Compensation Magnitude X Controllability Means and Std. Deviation

	High Controllability		Low Controllability	
	Mean	Std. Deviation	Mean	Std. Deviation
High Compensation				
Perceived Equity	4.046	1.445	4.367	1.359
Company Loyalty	4.161	1.589	4.296	1.331
Customer Satisfaction	4.197	1.385	4.090	1.233
NeWOM Intentions	2.024	1.408	1.877	1.297
Low Compensation				
Perceived Equity	2.984	1.469	3.582	1.475
Company Loyalty	3.804	1.534	4.1930	1.500
Customer Satisfaction	4.028	1.431	4.178	1.348
NeWOM Intentions	2.474	1.677	1.787	1.211
No Compensation				
Perceived Equity	3.333	1.304	3.711	1.374
Company Loyalty	3.865	1.557	4.491	1.310
Customer Satisfaction	3.786	1.498	4.321	1.309
NeWOM Intentions	2.365	1.655	1.991	1.334

4.3 Context Effects

Two separate two-way ANOVAs were conducted that examined the perceived equity effect of relationship quality on compensation and controllability, respectfully. The result of the omnibus ANOVAs did not provide evidence for a statistically significant interaction between the effects of relationship quality and monetary compensation magnitude, $F\ (2, 651) = 0.177$, $p = 0.838$, nor failure controllability explanation, $F\ (1, 653) = 0.239$, $p = 0.625$.

5. Discussion and Implications

This chapter of the report will begin discussing general findings, theoretical contributions and managerial implications related to monetary compensation magnitude (section 5.1) and failure controllability explanation (section 5.2) recovery efforts. The conclusion (section 5.3) will then provide overall final study remarks before limitations and future research suggestions (section 5.4) are outlined in the last section.

5.1 Monetary Compensation Magnitude

The results support H1, H2 and H3 and thereby indicate that monetary compensation magnitude's positive effect on company loyalty and cumulative satisfaction, and negative effect on NeWOM intentions was mediated by perceived equity. Context effects of relationship quality on monetary compensation magnitude are not evident.

The supported hypotheses are in line with equity theory, suggesting that recovery outcomes depend on how well recovery efforts restore equity perceptions and bring balance to the customer-company relationship (e.g., Grewal et al., 2008; Kwon & Jang, 2012; Söderlund & Colliander, 2015; Wirtz & Mattila, 2004). Significant mediation results on these specific end recovery outcomes are important as it informs how the levels of loyalty, satisfaction and NeWOM intentions will vary depending on how much compensation is provided. Considering that full mediation was seen on satisfaction and NeWOM, this suggests that the direct effect of monetary compensation is not that strong on those variables and that the positive effect on satisfaction and the negative effect on NeWOM is indirect only and is thus transmitted through the mediating variable, perceived equity. This was also demonstrated in the ANOVA post-hoc tests. Meanwhile, a significant positive indirect effect was seen on loyalty while a significant direct effects was also seen.

The current study contributes to the SFR literature on compensation in several ways. To begin with, the current study extends the notion that monetary compensation is an effective service recovery effort (Edström et al., 2022; Kwon & Jang, 2012; F.-Y. Pai et al., 2018). In addition, the current study takes this one step further by investigating how differences in the monetary compensation magnitude affects customers' reactions towards the company following a service failure (Gelbrich & Roschk, 2011; Lepthien et al., 2017). In line with Gelbrich & Roschk's (2011) findings, the current study advances the understanding that increasing compensation amount or value generally yields more positive customer reactions and recovery outcomes. This, by showing that customers' perceived equity, following the service failure, was significantly higher when they were offered high as opposed to low or no monetary compensation. Perceived equity, in turn, was significantly related to all tested recovery outcomes and indirectly mediated compensation effect on these same recovery outcomes. The current study also puts forth indications in line with Lepthien et al.'s (2017) findings regarding how customer reactions can vary in a non-monotonic way with the monetary compensation magnitude. Although not significant like Lepthein et al. (2017) the current study shows similar findings as customers receiving a low monetary compensation after the service failure restore less equity compared to customers not receiving any monetary compensation. This indicates that members in fact could perceive a small amount of monetary compensation as too little and insulting. Thus, the current study contributes by indicating that this non-monotonic relationship holds.

There are also many managerial implications from this result. The main implication is that managers who want to mitigate negative company loyalty, cumulative satisfaction and eWOM reactions after an LP termination should offer high monetary compensation to members. For some companies this may be too costly and they may consider only offering low or no compensation. Considering the results showing that no compensation generates higher equity perception than low compensation (albeit insignificantly), a manager that is facing this decision should choose to offer no compensation instead of low compensation.

Considering this, the decision for managers comes down to weighing the pros and cons of offering high compensation or no compensation after an LP termination. No compensation will lead to not as effectively mitigating negative company loyalty, cumulative satisfaction and eWOM intentions, but also saves costs for the firm. The manager must therefore contemplate whether the financial benefit of not compensating members will outweigh the long-run costs of losing business from hard-fought, loyal customers and receiving harsh online critique. In an increasingly connected world where social media enables faster, but falser and uncontrollable communication, the consequences of not reducing NeWOM intentions could be severe for brand reputation. Moreover, considering the potential lifetime value of already loyal customers and that acquiring a new customer can be anywhere from five to 25 times more expensive than retaining an existing one (Gallo, 2014), managers may want to bite the bullet and offer generous, high compensation to members upon LP termination in order to retain valuable customers. Such compensation will be costly, but the combined repeat purchase value of the retained customers could surpass the cost of financing this high compensation to members in no time.

Facing the need to offer high compensation to members, the LP manager may also wonder if it is necessary to compensate *all* members. Given the insignificant interaction between the relationship quality context variable and compensation on perceived equity in the current study, the findings would suggest that managers should not discriminate in terms of which members they provide compensation to. Results of other studies arrive at alternative conclusions around how recovery efforts should be adapted to different customer segments (Kwon & Jang, 2012; F.-Y. Pai et al., 2018). Hence, this should be taken into consideration when drawing implications from this study.

Finally, the presentation of the monetary compensation does not necessarily need to be impersonally presented in the form of a delayed percentage discount on the next purchase, as the current study operationalized it as. Instead, it can be presented in a more immediate, less concrete and personalized manner. Providing compensation with immediacy and in such particularistic and concrete manners has been proven to enhance satisfaction via justice perceptions, obligation to reciprocate, and repurchase intentions (Hwang et al., 2020; Roschk & Gelbrich, 2017). LP-terminating managers should therefore tinker with how the compensation is presented in order to generate the best recovery outcome (Rehnen, 2016).

5.2 Failure Controllability Explanation

The results support H4, H2 and H5 and thereby indicate that failure controllability explanation's negative effect on company loyalty and cumulative satisfaction, and positive effect on NeWOM intentions was mediated by perceived equity. Context effects of relationship quality on failure controllability explanation are not evident.

The supported hypotheses are once again, in line with equity theory, suggesting that recovery outcomes depend on how well recovery efforts restore equity perceptions and bring balance to the customer-company relationship (e.g., Grewal et al., 2008; Kwon & Jang, 2012; Söderlund & Colliander, 2015; Wirtz & Mattila, 2004). Significant mediation results on these specific end recovery outcomes are important as it informs the retention of customers (i.e., company loyalty and cumulative satisfaction) and the extent to which customers will speak poorly of the company on the internet following the LP termination (i.e., NeWOM intentions).

The current study contributes to the SFR literature on explanations in several ways. To begin with, the results from the current study further strengthen findings from previous research outlining that explanations, following a service failure, may influence customer perceptions positively via casual accounts (Bitner et al., 1990; Conlon & Murray, 1996; Gelbrich, 2010; Sparks & Callan, 1997). The current study also contributes to the knowledge of how such explanations should be drafted in terms of failure controllability in order to strengthen positive customer reactions post service failure. Results expand the evidence of how attribution of controllability is inherently affecting the customers' reactions, and thus can be leveraged as part of an explanation recovery effort (Choi & Mattila, 2008; Folkes, 1984). More specifically, the current study improves our comprehension of explanation as a service recovery effort by concluding that, when a company is providing a low failure controllability explanation, customers tend to be more understanding and forgiving (which restores equity) to a significantly larger extent than when a high failure controllability explanation is provided. These findings are further contributing to previous literature as it congruently supports previous research on the topic (e.g., Folkes, 1984; Nikbin et al., 2014), except in a new LP termination context where reactions to explanations were previously unknown.

There are also many managerial implications from this result. The main implication is that managers who want to mitigate negative company loyalty, cumulative satisfaction and eWOM reactions after an LP termination should provide a low controllability explanation to members. These results imply that managers are better off when "blaming" the LP termination on external factors. Though it seems like the most effective failure explanation recovery effort, it puts forth risks for companies claiming low controllability explanations for the LP termination even though it in fact was of high controllability. This issue raises ethical and customer relationship concerns. First, is it ethically justified to twist the truth about the LP termination for the sake of mitigating customer reactions and in the end report better financial performance? Second, what if the low controllability explanation backlashes and it comes to customers' knowledge that the truth has been twisted; how will customers react in relation to such disclosure and will the act of not telling the truth in the first place make up for those negative reactions?

On the other hand, it can be argued that there is no clear demarcation for what is considered low or high controllability. Frankly put, most events can, if you back track them long enough, be seen as caused by external, uncontrollable factors. For instance, say that a company is communicating that they are terminating their LP due to too high costs of running the program. Simply put, this can be argued to be a high controllability failure explanation. Looking one step further, however, the reason why costs of running the LP have increased may be due to increased salary costs, which, in turn, can be explained by increased inflation; something that is out of the company's control. This "rabbit hole" of controllability can be leveraged by managers in order to frame their specific reasons for LP termination as either high or low controllability. In light of this discussion, managers will need to think carefully as to if and how they would phrase and communicate a low controllability failure explanation, even though the termination can be argued to have been in the firm's control. Also, when looking at it from customers' perspective, the company needs to keep in mind that, even though they believe their failure explanation is of low controllability, it might be that customers see it as the opposite.

Further, Bitner (1990) and Wirtz & Mattila (2004) have shown that if a company offers monetary compensation without an explanation after a service failure, customers may be more likely to interpret this as an admission of guilt and thus attribute higher controllability of the failure because of it. This tendency for customers to attribute higher controllability (shown to imply negative customer reactions) when being monetary compensated (shown to imply positive customer reactions) indicates two competitive forces decreasing/increasing negative post service failure reactions. These findings stress the general importance of providing an explanation, and, in particular, a low controllability explanation (shown to imply positive customer reactions) in combination with the monetary compensation to effectively mitigate the negative causal attribution that would appear if no explanation was given.

Edström et al. (2022) puts forth a similar view by stating that “when faced with a service failure that the organization is indeed responsible for, managers may benefit from recovery strategies” (Edström et al., 2022, p. 8). This suggests, in tune with the current study’s findings, that when a company is providing a high controllability failure explanation, compensation is needed to mitigate the negative reactions that are implied by what customers attribute the cause behind the service failure to be in the company’s control. On the other hand, when a company is providing a low controllability failure explanation, compensation is not needed to the same extent. Overall, retailers and service providers need to be aware of the combined effects of an explanation and compensation on consumer reactions (Bolton et al., 2007; Grewal et al., 2008).

Finally, it has become evident that it is of utmost importance for managers to weigh the costs of service recovery efforts relative to their benefit (Grewal et al., 2008). This notion is put in favor of the current study’s findings, suggesting that providing explanations (free of monetary charge) are effective in mitigating customers' negative reactions post a service failure. Simply put, utilizing explanations to guide customers' understanding of the cause of the service failure offers an easy, powerful and affordable service recovery effort for managers (Mattila, 2006). When laying out all the facts, and it is decided that a failure explanation is the appropriate recovery effort, it is important to keep in mind that the communication of it is in line with the corporate communication strategy (Rehnen, 2016).

5.3 Conclusion

The purpose of this study was to further understand how to successfully terminate an LP by quantitatively analyzing the effect which compensation and explanation recovery efforts have in mitigating negative reactions following the termination of an LP. More specifically, the research question asked the following: *Does the magnitude of monetary compensation and the failure controllability of an explanation as recovery efforts following an LP termination failure have a significant positive effect on equity perceptions and impact the recovery outcomes of company loyalty, cumulative satisfaction and negative online word-of-mouth intentions?* Findings from the study suggest that monetary compensation magnitude and service controllability explanation, do in fact significantly restore equity perceptions, which, in turn, mediates the respective recovery efforts' effect on the recovery outcomes of company loyalty, cumulative satisfaction and NeWOM intentions.

Interpreting the individual effects of both recovery efforts together, it is evident that LP managers are faced with a "best case", most successful alternative when terminating their LPs. To successfully terminate the LP and optimally mitigate negative reactions (via equity perception restoration), LP managers should provide high monetary compensation and a low controllability explanation following the LP termination. Though this seems like the best option with all other things being equal, it could be naive to always assume that this combination can be used. For instance, due to financial constraints from an already expensive and liability-prone LP, a company might not be able to offer a high monetary compensation. In that case, a low failure controllability explanation is to be preferred in mitigating the negative reactions as it will counteract the less desirable effect of offering low or no compensation. On the other hand, a company might not feel confident in providing a low failure controllability explanation for ethical reasons. In that case, high monetary compensation is to be preferred in mitigating the negative reactions as it will counteract the less desirable effect of providing a high failure controllability explanation.

Upon successful termination of the LP with the insights from this study, the work for LP managers is not done. As mentioned in the introduction, many LPs are being discontinued in favor of subscription-based models to capture loyalty. Whether the announcement of the new subscription-based models is done in relation to the LP termination or done in the subsequent months following the termination, LP managers should seriously consider the viability of transitioning into such a model given its advantages for the firm and customers (Neveu, 2022). While investigating the transition to such a new loyalty model was beyond the scope of this study, hopefully the LP manager and the firm have devised a strategy for how they will engage customers following the termination in a more stimulating, valuable-adding and convenient way than was done before.

Looking holistically on the results from this study, it is acknowledged that research exists in the SFR literature on recovery outcomes from monetary compensation magnitude and failure controllability explanation, though no study has investigated them, nor quantified them in the context of an LP termination failure (Rehnen, 2016). The current study thus contributes to the SFR literature by showing that compensation and explanation proves to be effective recovery efforts in a novel, LP termination failure context. Further, being aware of that an LP termination will lead to negative loyalty reactions (McCall & McMahon, 2016; Melnyk & Bijmolt, 2015; Rehnen, 2016), this study goes one step further and applies SFR literature and equity theory to show that mitigation of negative loyalty, as well as previously called for satisfaction and eWOM reactions is possible through correct magnitude and controllability deployments of monetary compensation and failure explanation.

The findings of this study will hopefully remove any hesitation which LP managers face in contemplating terminating their LP as they can now make more informed decisions about how to terminate the LP with effective recovery effort deployment so as to retain profitable customers. In addition, the authors are hopeful that researchers are eager to keep investigating the LP termination failure context, as future research is called for.

5.4 Limitations and Future Research Suggestions

This section covers limitations and aspects to be criticized of the current study. In doing so, future research suggestions are provided. Although actual behavior can be well predicted from behavioral intentions, the captured company loyalty and NeWOM intentions in the current study might differ from actually practiced behavior (Ajzen, 1991; Chandon et al., 2005). Thus, the scenario-based nature of the main study design is a limitation to understanding how members actually would react to recovery efforts following a termination. As mentioned in the delimitation, however, replicating this study except with a real-life LP termination would prove challenging from a timing and resource perspective.

Another limitation is that, in allowing respondents to think of a company where they are an actual LP member, some respondents may have thought of a company which they are dependent upon or shop at out of necessity. Such dependence could have influenced their ultimate failure/recovery reactions. For example, a respondent that considered their nearest grocery retail chain could have been more likely to remain loyal regardless of the LP termination failure and the corresponding recovery attempt than a respondent that considered a global, fast-fashion retailer which they do not depend as heavily on. A member's dependence on an LP-terminating company should also be considered and better controlled for in future research as a factor potentially influencing member reactions.

A few limitations come with the design of the monetary compensation magnitude conditions. First, restrictions to the value and type of products the compensation discount could be redeemed on was not explicitly stated and could thus be considered unrealistic and, thereby, limiting to the external validity or generalizability of the study. As manipulation checks showed, however, the overall realism perceptions of the study were satisfactory (section 4.1). Second, it can be claimed that the high compensation condition of a 50% discount on the next purchase is also unrealistic and validity damaging, especially considering no redemption value restriction was stated which means it could be redeemed on a product of any value in the assortment of the imagined retail company. While it is true that such high compensation values are not often provided without a "catch" in reality, the results showed that the high compensation condition had the highest realism perceptions. Moreover, the difference to the bottom line of a high vs. low margin retailer should not be too great as a result of such a generous compensation, as it is all relative to the average margins the respective retailer makes on their products, e.g., a 50% discount on a TV for an electronics retailer is just as damaging as a 50% discount on a t-shirt for a fast-fashion retailer.

Third, the fact that the specific low and high compensation magnitude conditions were not selected using an established classification system can be seen as limiting to the examination of the compensation magnitude variable. While the no-low-high compensation conditions still represent a continuum of monetary compensation value and thus the independent variable in question, a more clear-cut, established approach to classifying compensation magnitudes would have been to use simple vs. overcompensation classification (Edström et al., 2022; Gelbrich & Roschk, 2011). This would have required, however, an exact same lost value from the LP termination failure for all respondents; something that was difficult to manage given the employment of a scenario-based experiment with reality elements. That is, because respondents imagined the termination of an LP where they are an *actual* LP member, they all held differing *actual* monetary and sentimental value in the LP they imagined. Future research employing a purely scenario-based experimental design, where respondents would be described a fictional relationship with a fictional LP, could permit the examination of compensation with a more established simple vs. overcompensation classification. For example, the respondent could be told that they currently hold 2000 points in their account with this fictional LP and that this is the monetary equivalent of 20 USD, thus acting as the lost value from the failure when the LP terminates (in addition to the sentimental value the member might hold with the LP). Simple compensation values (≤100% of lost value from failure) and overcompensation values (>100% of lost value from failure) could have been offered to the respondent surrounding this value, making for a much more objective classification of the variable (Gelbrich & Roschk, 2011). Although it can be harder for respondents to immerse themselves in such scenario-based experiments, future research should employ these methods to capture recovery outcomes following an LP termination failure as it permits the best examination of the variable in concern and often allows the best theory testing (Weiner, 2000).

Fourth, the number of compensation magnitude conditions is limiting in how precise the findings could be. More compensation magnitudes could have been added in order to derive more precise findings. And, although not the purpose of the study, more compensation magnitudes could have helped gauge at what threshold overcompensation begins and SFR paradox occurs (Edström et al., 2022). Adding just one more compensation magnitude condition was unfortunately beyond the scope of this study as this would have considerably increased the number of respondents that would be required to provide statistical power. As high compensation did generate significant reactions compared to low compensation, future research should investigate more compensation magnitude conditions in between high and low compensation magnitude values in the current study in order to find the "sweet spot" where LP managers can just avoid overcompensating but still significantly mitigate negative reactions.

Fifth, the compensation magnitude conditions factor in alternative compensation dimensions like compensation timing, particularism and concreteness which could have had unintended effects on the results (Hwang et al., 2020; Roschk & Gelbrich, 2014; Roschk & Gelbrich, 2017) and thus affect the internal validity. To be specific, the operationalized compensation magnitude conditions were all delayed, impersonal and concrete as the compensation was presented by the company (impersonal) as a discount (concrete) to be used on the next purchase (delayed). While it is difficult to avoid such "contamination" of other dimensions to variables in research, scenario descriptions in future research should control for other compensation dimensions creeping in. Once again, this can more easily be done by employing a detailed scenario-based experiment that permits more exact measurement of the variable in question (Weiner, 2000). On the other hand, future research could also analyze how such compensation dimensions can influence recovery outcomes in an LP termination failure context.

Some limitations come with the design of the failure controllability explanation conditions as well. First, a control condition for failure controllability explanation (i.e., no explanation) was missing while a control condition for monetary compensation magnitude existed (i.e., no compensation). Addition of a "no explanation" condition in future research could open up the possibility of analyzing the alternative causal path where magnitude of compensation informs controllability attributions, which, in turn, acts as mediator to perceived equity and the eventual recovery outcomes. This would be contributing to literature as previous research has shown controllability attributions as a mediator only when compensation is provided or not (e.g., Bitner, 1990; Wirtz & Mattila, 2004), but not when compensation exists on a continuum of values.

Second, as it has been shown that compensation informs controllability attributions (Bitner, 1990; Wirtz & Mattila, 2004), it is concerning that the full factorial design of the study may have opened the possibility for exposure to compensation to influence the final recovery outcomes by biasing respondents' actual controllability attributions, despite the controllability condition they may have received. That is, the perceived equity of respondents who received a low controllability explanation may be negatively influenced due to exposure to the "baked in" high or low compensation conditions, which leads them to attribute higher controllability than intended. As interaction effects were of no interest and proved to be insignificant, if the study were to be conducted once again, deployment of two studies analyzing the separate effects of compensation magnitude and controllability explanation would have led to results with higher internal validity. At the same time, however, recovery efforts are often used together in practice (e.g., apology, compensation and explanation), so it does not make sense to test them separately from a practical perspective.

The current study indicates that perceived equity fully mediated the impact of compensation on cumulative satisfaction and NeWOM intentions and the impact of controllability on company loyalty and cumulative satisfaction. However, the current study also indicated that, due to direct effect being significant, perceived equity competitively mediated the impact of compensation on company loyalty and that perceived equity complementarily mediated the impact of controllability on NeWOM intentions. This "points to the possible existence of some omitted second mediator" (Zhao et al., 2010, p. 201). Future research should try to identify second mediators with the potential to produce positive and negative impacts. These could be emotional mediators like helplessness, anger or frustration (e.g., Gelbrich, 2010) or mediators related to the failure itself like perceived severity of the failure (e.g., F.-Y. Pai et al., 2018).

In addition to considering other mediators in this context, future research should also consider more LP-specific moderators in order to understand how LP characteristics or LP consumer characteristics might strengthen or weaken recovery outcomes. For example, Melnyk & Bijmolt (2015) consider how LP termination loyalty reactions differ depending on whether or not the LP had discrimination or customization elements, as well as whether LP members were price-sensitive, found the LP important or had privacy concerns. This will contribute to literature as it will better bridge the gap between the two streams of literature

Although it may be considered an obviously good recovery effort to employ, future research should also consider how psychological compensation recovery efforts like an apology or acknowledgement may impact recovery outcomes in the LP termination failure context relative to tangible, monetary compensation. Should offering of an apology or acknowledgment significantly impact recovery outcomes and come close to the levels which offering monetary compensation generates, LP managers could perhaps skip out on offering compensation altogether and save costs by simply apologizing for the failure.

Finally, remember that the negative effect on customer loyalty is particularly stronger when a company terminates an LP in an industry where a larger share of firms have LPs (Melnyk & Bijmolt, 2015). Since the current study asked respondents to consider a retail company with an LP and retail is an industry where many firms have LPs, the findings are not generalizable to other industries with a low share of LPs since the customer loyalty reactions will be much less severe to begin with in those industries and there will be less need for strong recovery. Therefore, future research should analyze the efficacy of the same recovery efforts, as well as no recovery efforts following an LP termination in industries where there is a smaller share of companies with LPs. This will generate insight as to whether or not recovery efforts are even necessary in industries with low LP penetration.

6. Reference List

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Appendix 1 – Failure Attribution Examples

Attribution dimension	Example
Stability	A set of bookshelves might be collapsing because the manufacturer was careless just this once, or the manufacturer might be consistently careless.
Locus of control	The reason for a set of bookshelves collapsing could either be due to incorrect assembly by the consumer or a defective product from the manufacturer.
Controllability	The reason for the bookshelves being defective could either be due to the manufacturer's inhouse employees delivering the incorrect set of screws or because its supplier sent the wrong set of screws

Appendix 2 – Interviews Probing the Empirical Field: Design, Sample and Key Findings

Design

The first step to design the interview study was to thematize the topic. This was done by combining insights from LP termination literature and SFR literature.

The second step was to design the interview questions that would guide the way for the quantitative main study (Brinkmann & Kvale, 2014). This current study used a semi-structured interview process. This design ensures that previously identified areas are covered, while unforeseen facts could be investigated further with follow-up questions. Interesting and unexpected discoveries that came up during the interviews could thereby be followed up with questions thanks to the choice of design (Jarratt, 1996).

The third step was conducting the interviews (Brinkmann & Kvale, 2014). The interviews began by asking a couple of introductory and open-ended questions that would make the informants relax and feel comfortable in the interview situation. The informants were then asked to define a couple of essential concepts that are of great importance for the current study. This was done to ensure that no misunderstandings would arise. Then the interviews continued to more decisive questions where the authors started from clearly structured and prepared questions (see Appendix 3) which were the basis to guide the current study. Follow-up questions supplemented the overall question battery in line with a semi-structured interview design.

The fourth step, which was done immediately after an interview was completed, was to start transcribing it (Brinkmann & Kvale, 2014). Through transcription, the physical interview was translated into a more concrete written form. The transcription took place continuously as there is a learning element in transcribing one's interviews. This allowed the authors to hear and analyze their own interview technique and start to find patterns in the interviews conducted. Guidelines were set up to ensure that the authors followed a consistent method of transcribing as it is required for validating the empirical evidence.

The analysis of the empirical data, step five, was based on a thematic analysis (Brinkmann & Kvale, 2014). The authors read through the transcription of the interviews several times to thematically reflect on specific themes. The authors then identified different themes in the informants' responses. Color schemes were used as a tool to achieve this. Identified themes could then be analyzed further, using previous literature as a base. The analysis was thus systematically elaborated in order to capture interesting answers. In order to maintain a social constructivist approach, individual responses were also taken into consideration in the empirical work and later in the data analysis.

The two final steps, six and seven, were initiated by verifying and ensuring that the authors received the appropriate guidelines necessary for the current study to proceed. Finally, developed themes are communicated and reported as the final step (Brinkmann & Kvale, 2014).

Sample

Appropriate company representatives to interview were identified using the lead intelligence and sales engagement platform Apollo.io (Y Combinator, 2023). On the platform, company representatives to interview were identified by filtering for, e.g., ‘Head of Marketing’, ‘LP Manager’ or ‘Chief Marketing Officer’ of companies which presumably had an LP in Sweden.

In order to establish contact with the informants, outreaches were made via LinkedIn and email. 75 potential interviewees were contacted. The messages to the target interviewees consisted of the study question and a request to contribute to the current study with their experience and knowledge on LPs. Interviews were then booked with the informants. In addition, via the same process, to get a non-biased sentiment towards LPs, the authors conducted interviews with c-suite employees at the two retail consultancy firms.

Key Findings

From thematizing the transcribed interviews, the authors identified several interesting findings to guide the preceding study of the thesis subject.

Terminating LP or not:

While all B2C companies held a strong attachment and belief in their LPs, the hospitality companies, i.e., the hotels and airline were particularly fond of their LPs and could not foresee ever discontinuing their programs. This was due to the fact that the success of those businesses and their respective LP’s go hand-in-hand. Frequent fliers and hotel guests (whether for business or pleasure) make up a substantial part of the bottom line and these companies cannot afford to tarnish their relationship with these customers.

> *“We would never consider shutting down our loyalty program, it is such a big part of our business and the industry. We would rather develop and improve it to meet the guests' needs.”* – Informant 5

On the same note all informants from the retail industry expressed hesitation towards terminating their LP. Though, some of the informants expressed some hesitation in regard to the actual effectiveness of the LP.

"Overall, I would not see that we were to turn off the loyalty program but I can definitely see reasons for doing so" – Informant 1

Considering informants' general attachment to the programs, it was clear that representatives from the companies were perhaps slightly naive thinking they would last forever and had not extensively contemplated how they would potentially terminate their LP one day. This is natural though as for some interviewed employees, managing the livelihood of the LP is their main responsibility. This notion was further interpreted by the two consultancy interviews which stated that the way LPs are managed today is not sustainable.

"Brands start loyalty programs with the intention to add value and bring warm and loyal feelings to the customer, though it turns out to be just a discount sharing platform. The program becomes very transactional which is not beneficial in the long-run."
– Informant 8

The two consultancy informants further outlined that LPs often are not very thought through, companies tend to implement and operate LPs just for the sake of having one.

"Loyalty programs have become a 'me too' solution where retailers start their program just because everyone in the industry operates one. There is a copy-paste culture where companies offer programs in a generic transactional way without considering their target customer" – Informant 7

Reasons for not terminating:
When informants were asked for reasons why they would not want to terminate their LP they were all pointing at the issue of missing out on customer data and statistics. On top of that, informants see revenue loss and communication channel loss as additional reasons for not terminating the LP.

"The biggest issue that I could see if we closed down the program is the access to customer data. Today, one of our main communication channels is the members consent to receive direct emails by being a member" – Informant 2

In contrast, one of the consultancies explained that the digital landscape today allows companies to track data and communicate with customers even though it is not formally set up within an LP.

"Leveraging marketing automation flows and tracking cookies are only two examples of how retailers can create a personalized journey for customers without the need for a loyalty program" – Informant 8

Reasons for terminating:

Considering factors for why LP termination would be a viable option the majority of informants expressed the cost element. From interviews it could be seen that the cost aspect was two-fold, considering both the costs for maintaining the program and the cost of constantly providing customers with monetary rewards.

"We do not always see the benefit with maintaining the program as we put a lot of resources into it but customers are not willing to give something in return for the effort that we put in" – Informant 1

"Considering all the rewards we provide our customers with; it becomes truly expensive. Our balance sheet needs to take a big hit" – Informant 6

Recovery efforts:

When asking informants about potential strategies to use if they were to terminate their LP there was a strong consensus. First, all of the informants interviewed stressed the need to monetarily compensate the LP member for the termination. Giving some nuance to the nature of monetary compensation some informants expressed the need to balance the positive and the negative, i.e., providing compensation (positive) in light of the LP termination (negative). Further, one informant outlined the importance of compensation but to not overcompensate. The two consultancies see monetary compensation as an appropriate recovery effort as customers are used to it and thus it makes sense to leverage it even as the LP is to be terminated.

"Providing customers with for example a discount on the next purchase would be a way to compensate the loss that the member would face, this would be especially important for our most loyal members" – Informant 3

Second, some informants discussed the timeframe from which the company expresses the desire to terminate the program until it actually closes down. From the interviews it was evident that a slow phase out of the LP is to be preferred.

"When doing such a big change (LP termination) we want to give advance notice as much as possible. At least six months in advance" – Informant 5

Third, informants spelled out the importance of explaining why the LP termination is being executed. The majority of the informants said that providing members with an explanation is vital as it stresses protection and care for the members while they also felt they owe the members an explanation as they have been in a relationship over time.

"You will need to communicate with the members and make them understand why the loyalty program is being canceled" – Informant 3

The views on how companies would put forth this explanation is though a bit opposing. Some informants explained the importance of being transparent at any cost, making sure to not make things seem more pleasant or acceptable than they are.

"Transparency is the key when communicating the (LP) termination, we wouldn't sugar coat anything, maybe hinting that in order for the airline to operate this needs to be done" – Informant 6

In contrast, others put forth that the explanation for the LP termination could be less transparent and even slightly twist the truth if necessary.

"Make the customer understand why the program is shut down […] in some cases it could happen that we even blame it on external factors" – Informant 2

As a final remark, the majority of the informants additionally mentioned an apology as a potential recovery effort, though they put forth that it is an obvious strategy that almost always is included when companies need to respond to disappointed customers.

"From experience it seems like customers expect an apology from us when they are disappointed with our treatment, at least it has become a standard in our communication" – Informant 3

Appendix 3 – Interviews Probing the Empirical Field: Interview Questions

Ethical guidelines

The interview will take between 30-60 minutes. X will hold the interview while Y joins as an observer and adds follow-up questions if needed.

If any question is sensitive to you or if you for some other reason do not want to answer the question, just express that and we will skip the question.

Is it okay if we record the interview for internal use only?

Do you wish to be anonymous in the interview? Before we quote you, we will reach out to you for approval.

Introduction

Could you please introduce yourself, what is your background and what you do at company x?

Please describe your loyalty program.

For how long has it been running?

How is it structured (e.g., reward system, tier levels)?

Is it a stand-alone or multi-vendor program?

Main questions

How do you communicate with loyalty program members today?

What channels are used?

What type of messaging is used within channels (e.g., newsletters, direct emails)?

What is your communication strategy as you make changes to the program?

In the special circumstance where you terminate your LP, would you consider using alternative communication channels/ strategies?

Would you ever consider terminating your LP?

Why or why not?

What are potential reasons for terminating the loyalty program?

What would you fear losing out on if you were to terminate your LP?

What aspects would be most important for you to consider in order to retain customer loyalty?

What are interesting measures to consider when it comes to the customer reaction to termination of the LP?

When the LP was created, did you already have an exit strategy (trap-door) in mind?

What is your view on the future of loyalty programs?

Are there any other factors you would suggest we consider?

Appendix 4 – Interviews Probing the Empirical Field: Informants

Name	Company	Industry	Duration	Date	Place	Transcription
Informant 1	Company A	Retail	45 minutes	2023/02/06	Digital	6.5 pages
Informant 2	Company B	Retail	32 minutes	2023/02/08	Digital	3.0 pages
Informant 3	Company C	Retail	26 minutes	2023/02/13	Digital	2.5 pages
Informant 4	Company D	Hotel	44 minutes	2023/01/27	Digital	6.25 pages
Informant 5	Company E	Hotel	25 minutes	2023/02/02	Digital	2.25 pages
Informant 6	Company F	Aviation	44 minutes	2023/02/02	Digital	4.25 pages
Informant 7	Company G	Consultancy	51 minutes	2023/02/15	Digital	7.0 pages
Informant 8	Company H	Consultancy	25 minutes	2023/02/14	Digital	3.0 pages

Appendix 5 – Pre-Study: Tested Scenarios

High Controllability – Internal priorities:

Imagine that you today receive a message from the company stating that they regret to inform you that they have decided to terminate their loyalty program due to changes in internal priorities. The company states that they are focusing their resources on other aspects of the business which has made it unfeasible for them to still maintain the program.

High Controllability – Profit objectives:

Imagine that you today receive a message from the company stating that they regret to inform you that they have decided to terminate their loyalty program due to changes in profit objectives. The company states that their current rewards have been too costly which has made it unfeasible for them to still maintain the program.

Low Controllability – Laws and regulations:

Imagine that you today receive a message from the company stating that they regret to inform you that they have decided to terminate their loyalty program due to changes in laws and regulations. The company states that new data privacy regulations have made it unfeasible for them to still maintain the program.

Low Controllability – Macroeconomic landscape:

Imagine that you today receive a message from the company stating that they regret to inform you that they have decided to terminate their loyalty program due to changes in the macroeconomic landscape. The company states that increased interest rates and inflation has made it unfeasible for them to still maintain the program.

Low Controllability – Partners' supply chain:

Imagine that you today receive a message from the company stating that they regret to inform you that they have decided to terminate their loyalty program due to changes in their partners' supply chain. The company states that increased purchase prices and freight costs has made it unfeasible for them to still maintain the program.

*The reasoning behind whether the particular scenarios were seen as being of high controllability or low controllability was as follows: changes in internal priorities (high controllability) stated that the company were to focus their resources on other aspects of the business which is within its control; changes in profit objectives (high controllability) stated that the LP rewards had been too costly which is within the company's control; changes in laws and regulation (low controllability) are decided on by the parliament which is out of the company's control; changes in the macroeconomic landscape (low controllability) is due to the performance, structure, behavior, and decision-making of an economy as a whole which is out of the company's control; changes in partners' supply chain (low controllability) is in the hands of another company which is out of the company's control.

High Compensation:

Imagine that today you receive a message from the company stating that they regret to inform you that they have decided to terminate their loyalty program. Acknowledging that your satisfaction is important to them and that they want to regain your trust. As a way to apologize for the inconvenience, the company kindly asks that you accept their offer of a 50% discount on your next purchase.

Low Compensation:

Imagine that today you receive a message from the company stating that they regret to inform you that they have decided to terminate their loyalty program. Acknowledging that your satisfaction is important to them and that they want to regain your trust. As a way to apologize for the inconvenience, the company kindly asks that you accept their offer of a 5% discount on your next purchase.

Appendix 6 – Main Study: Tested Scenarios

High Controllability, High Compensation (High or Low Relationship Quality):
Imagine that you today receive a message from {the company} stating that they regret to inform you that they have decided to terminate their loyalty program due to changes in internal priorities. {the company} states that they are focusing their resources on other aspects of the business which has made it unfeasible for them to still maintain the program.

Acknowledging that your satisfaction is important to them and that they want to regain your trust, {the company} kindly asks that you accept their offer of a 50% discount on your next purchase.

High Controllability, Low Compensation (High or Low Relationship Quality):
Imagine that you today receive a message from {the company} stating that they regret to inform you that they have decided to terminate their loyalty program due to changes in internal priorities. {the company} states that they are focusing their resources on other aspects of the business which has made it unfeasible for them to still maintain the program.

Acknowledging that your satisfaction is important to them and that they want to regain your trust, {the company} kindly asks for your understanding and hope you will consider them when making your next purchase.

High Controllability, No Compensation (High or Low Relationship Quality):
Imagine that you today receive a message from {the company} stating that they regret to inform you that they have decided to terminate their loyalty program due to changes in internal priorities. {the company} states that they are focusing their resources on other aspects of the business which has made it unfeasible for them to still maintain the program.

Acknowledging that your satisfaction is important to them and that they want to regain your trust, {the company} kindly asks for your understanding and hope you will consider them when making your next purchase.

Low Controllability, High Compensation (High or Low Relationship Quality):

Imagine that you today receive a message from {the company} stating that they regret to inform you that they have decided to terminate their loyalty program due to changes in laws and regulations. {the company} states that new data privacy regulations have made it unfeasible for them to still maintain the program.

Acknowledging that your satisfaction is important to them and that they want to regain your trust, {the company} kindly asks that you accept their offer of a 50% discount on your next purchase.

Low Controllability, Low Compensation (High or Low Relationship Quality):

Imagine that you today receive a message from {the company} stating that they regret to inform you that they have decided to terminate their loyalty program due to changes in laws and regulations. {the company} states that new data privacy regulations have made it unfeasible for them to still maintain the program.

Acknowledging that your satisfaction is important to them and that they want to regain your trust, {the company} kindly asks that you accept their offer of a 5% discount on your next purchase.

Low Controllability, No Compensation (High or Low Relationship Quality):

Imagine that you today receive a message from {the company} stating that they regret to inform you that they have decided to terminate their loyalty program due to changes in laws and regulations. {the company} states that new data privacy regulations have made it unfeasible for them to still maintain the program.

Acknowledging that your satisfaction is important to them and that they want to regain your trust, {the company} kindly asks for your understanding and hope you will consider them when making your next purchase.

Appendix 7 – Main Study: Example Questionnaire

This survey is conducted for a master thesis research project at the Stockholm School of Economics.

Your answers will be anonymous and you can cancel your participation at any moment by closing the browser tab. The answers collected throughout this survey will be handled in accordance with GDPR regulations, and by completing this survey you agree to the processing of this data. The data gathered throughout this survey is solely collected for research purposes and will be stored and processed safely by SSE. The collected answers will be permanently deleted in June 2023 by the end of this research period.

You are welcome to visit https://www.hhs.se/en/about-us/data- protection/ in order read more and obtain information on your rights related to personal data.

If you have any questions about the study, please feel free to contact the researchers at 50549@student.hhs.se or 50638@student.hhs.se.

Thank you for participating!

Do you agree to voluntarily participate in this study?

○ Yes, I do agree, and will therefore continue answering the questionnaire

○ No, I do not agree. Therefore, I will now quit answering the questionnaire

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Survey instructions and a scenario will follow on the next pages. Please pay attention to the instructions and read through the scenarios carefully.

Estimated time to complete: 4 minutes

Please take a moment to imagine a **retail company** (e.g., within grocery, fashion or electronics) which you have a **strong relationship** with (e.g., a company you have strong trust for and strong commitment to) AND are an **actual** loyalty program member of.

The loyalty program attached to this company should offer you some **monetary rewards** (e.g., discounts, cashbacks or vouchers) based on buying behavior. Moreover, the program should be a stand-alone program.

That is, **the program is only connected to the single retail firm, vendor or brand** that you were previously thinking of.

[the other half of the respondent groups were asked to think of a company of which they have a weak relationship with]

Can you imagine a retail company and corresponding loyalty program that meets all of the above criteria?

- ○ I CAN imagine such a company/ loyalty program
- ○ I CANNOT imagine such a company/ loyalty program

Please enter the name of the retail company which the loyalty program you are imagining belongs to in the text box below.

[response was later used a placeholder {the company} in scenario text]

How much do you agree with the following statements?

	Completely disagree = 1	2	3	4	5	6	Completely agree = 7
I have a strong relationship with this company	○	○	○	○	○	○	○
I am satisfied with the relationship I have with this company	○	○	○	○	○	○	○
I have trust in this company	○	○	○	○	○	○	○

On the next page you will be exposed to a scenario. Please consider the company you previously imagined, i.e., {the company} as you read this scenario and read it carefully.

On the page after that you will be asked to respond to some questions related to what you have just read in the scenario. Please try to answer the questions as honestly and truthfully as you can, truly picturing yourself in this scenario. You may choose to go back and review the scenario by scrolling down and clicking the arrow at the bottom of the page.

Imagine that you today receive a message from {the company} stating that they regret to inform you that they have decided to terminate their loyalty program due to changes in internal priorities. {the company} states that they are focusing their resources on other aspects of the business which has made it unfeasible for them to still maintain the program.

Acknowledging that your satisfaction is important to them and that they want to regain your trust, {the company} kindly asks that you accept their offer of a 50% discount on your next purchase.

[the respondents were randomly assigned to any of the tested scenarios outlined in Appendix 6. This example demonstrates the high controllability, high compensation scenario condition].

In my opinion, the compensation offered to me by the company in this scenario is…

Small/ non-existent	○	○	○	○	○	○	○	Large

How much do you agree with the following statement?

	Completely disagree = 1	2	3	4	5	6	Completely agree = 7
The reason for the loyalty program termination is something the company had control over	○	○	○	○	○	○	○

How much do you agree with the following statement?

	Completely disagree = 1	2	3	4	5	6	Completely agree = 7
The termination of the loyalty program is an uncommon occurrence for this company	○	○	○	○	○	○	○

How much do you agree with the following statements?

	Completely disagree = 1	2	3	4	5	6	Completely agree = 7
I would continue to purchase products from this retailer	○	○	○	○	○	○	○
I would recommend this retailer to friends and family	○	○	○	○	○	○	○
This retailer is my first choice when it comes to purchasing "xyz" products	○	○	○	○	○	○	○

How much do you agree with the following statements?

	Completely disagree = 1	2	3	4	5	6	Completely agree = 7
I will spend less money at the company	○	○	○	○	○	○	○
I will stop doing business with the company	○	○	○	○	○	○	○
I will reduce the frequency of my interaction with the company	○	○	○	○	○	○	○
I will take my business to a competitor of the company	○	○	○	○	○	○	○

How satisfied or dissatisfied are you with this company?

Very dissatisfied	○	○	○	○	○	○	○	Very satisfied

To what extent does this company meet your expectations?

Not at all	○	○	○	○	○	○	○	Totally

Imagine a company that is perfect in every respect. How near or far from this ideal do you find this company?

Very far from ○ ○ ○ ○ ○ ○ ○ Cannot get any closer

How much do you agree with the following statements?

	Very unlikely = 1	2	3	4	5	6	Very likely = 7
Given the program termination, it is likely that I will tell friends and relatives through social media to not do business with this company	○	○	○	○	○	○	○
Given the program termination, it is likely that I will warn friends and relatives through social media to not shop at the company	○	○	○	○	○	○	○
Given the program termination, it is likely that I will complain through social media to friends and relatives about this company	○	○	○	○	○	○	○

Here is an attention task for you, just to make sure you continue to read the questions carefully. Please select the number eight below.

○ 5

○ 8

○ 12

○ 15

How much do you agree with the following statements?

	Completely disagree = 1	2	3	4	5	6	Completely agree = 7
The company was concerned about my inconvenience due to the loyalty program termination	○	○	○	○	○	○	○
The company handled the loyalty program termination appropriately	○	○	○	○	○	○	○
The outcome I received from the company was fair relative to my input in the loyalty program	○	○	○	○	○	○	○

The loyalty program termination would cause me…

Minor problems	○	○	○	○	○	○	○	Major problems
Small inconveniences	○	○	○	○	○	○	○	Big inconveniences
Minor aggravation	○	○	○	○	○	○	○	Major aggravation

How much do you agree with the following statement?

	Completely disagree = 1	2	3	4	5	6	Completely agree = 7
It was easy to project myself in the scenario	○	○	○	○	○	○	○

What is your gender?

- ○ Male
- ○ Female
- ○ Other

What is your age? (Please enter a numeric value)

Appendix 8 – Main Study Cronbach's Alpha Values

Variable	Cronbach's Alpha
Relationship quality	.891
Perceived compensation magnitude*	NA
Perceived failure controllability*	NA
Perceived failure stability*	NA
Company loyalty	.843
Cumulative Satisfaction	.893
NeWOM	.919
Perceived Equity	.835
Realism*	NA

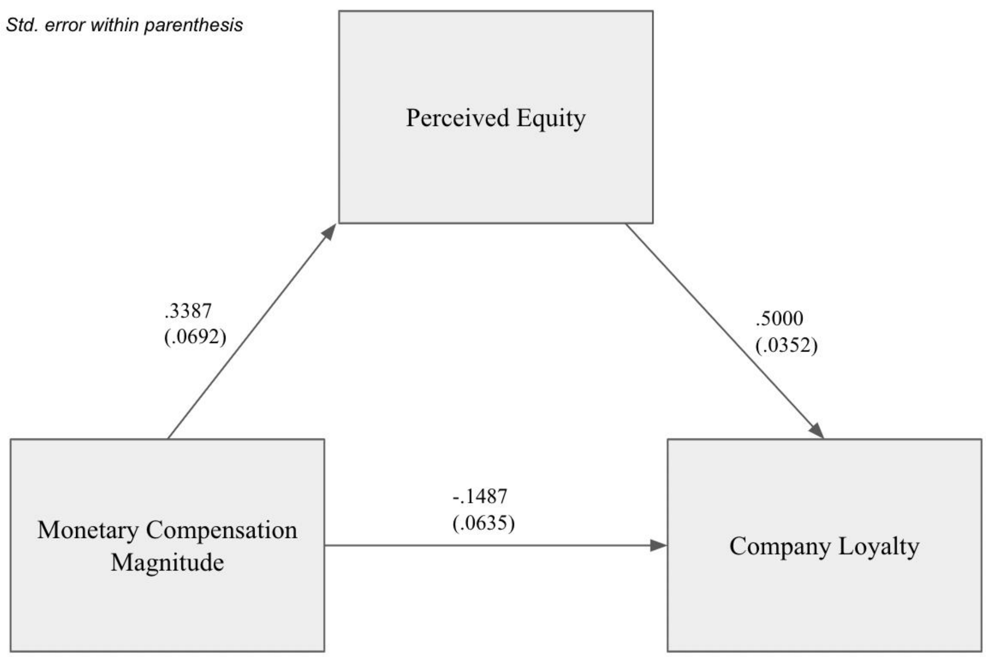
*Variables not indexed as they only consist of a single question

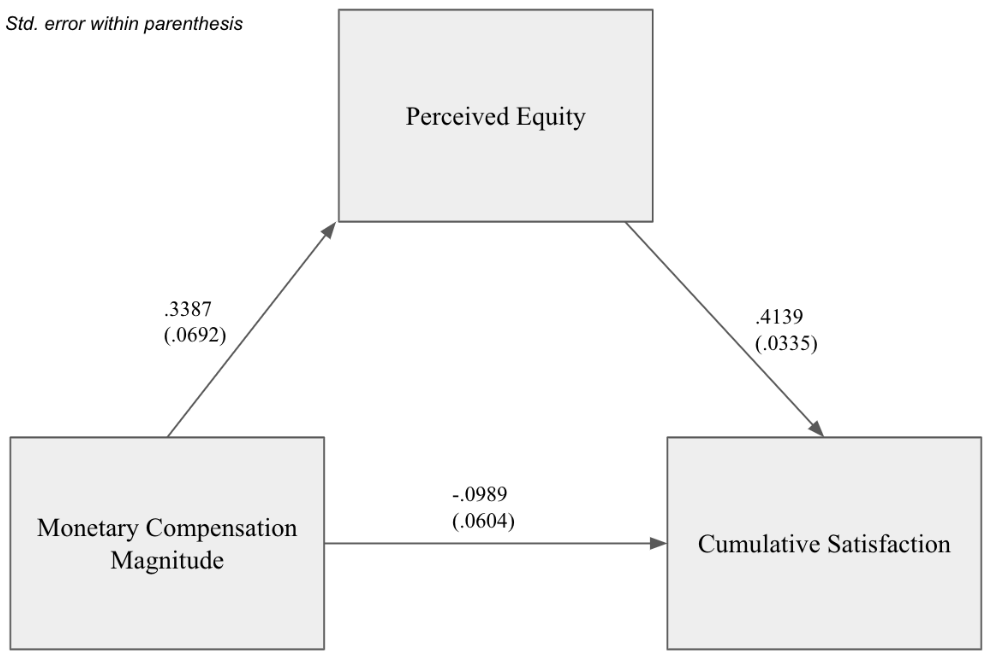
Appendix 9 – Overall Descriptive Statistics

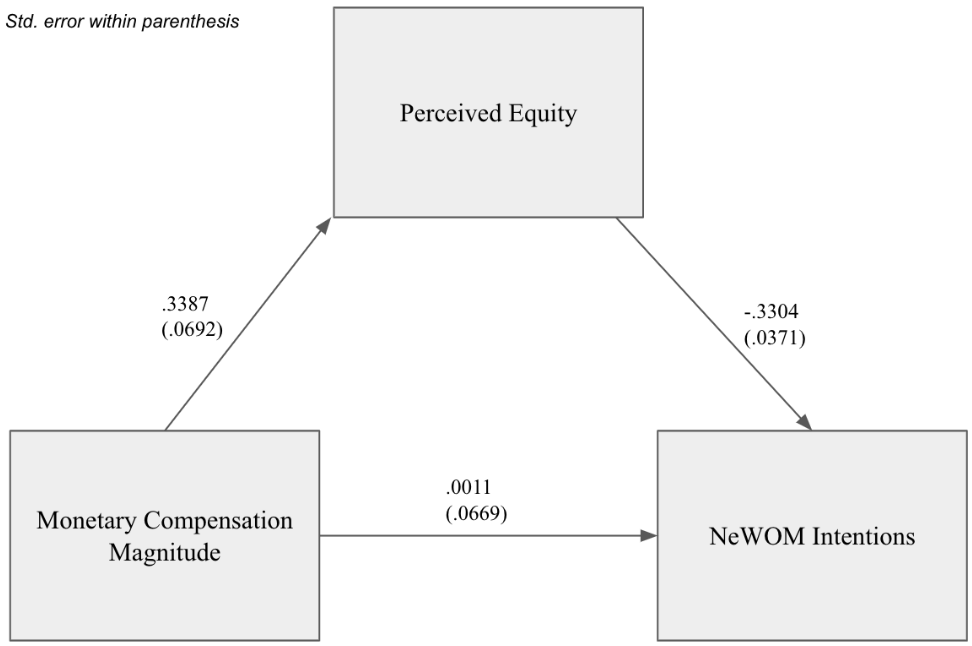
Overall Descriptive Statistics of Measures

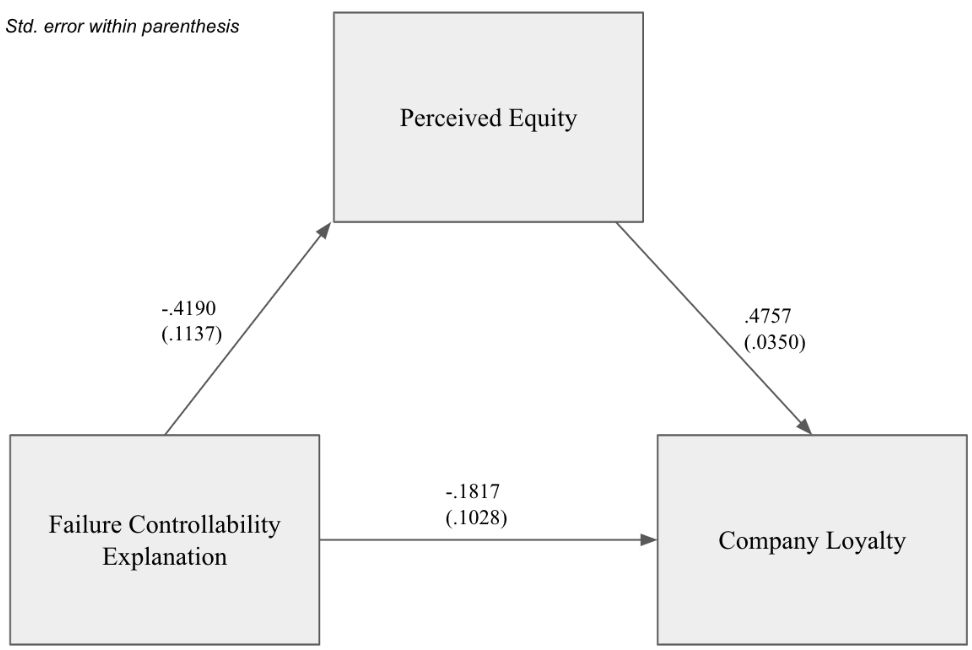
	Mean	Std. Deviation
Perceived Equity	3.673	1.471
Company Loyalty	4.139	1.487
Customer Satisfaction	4.104	1.374
NeWOM Intentions	2.081	1.453

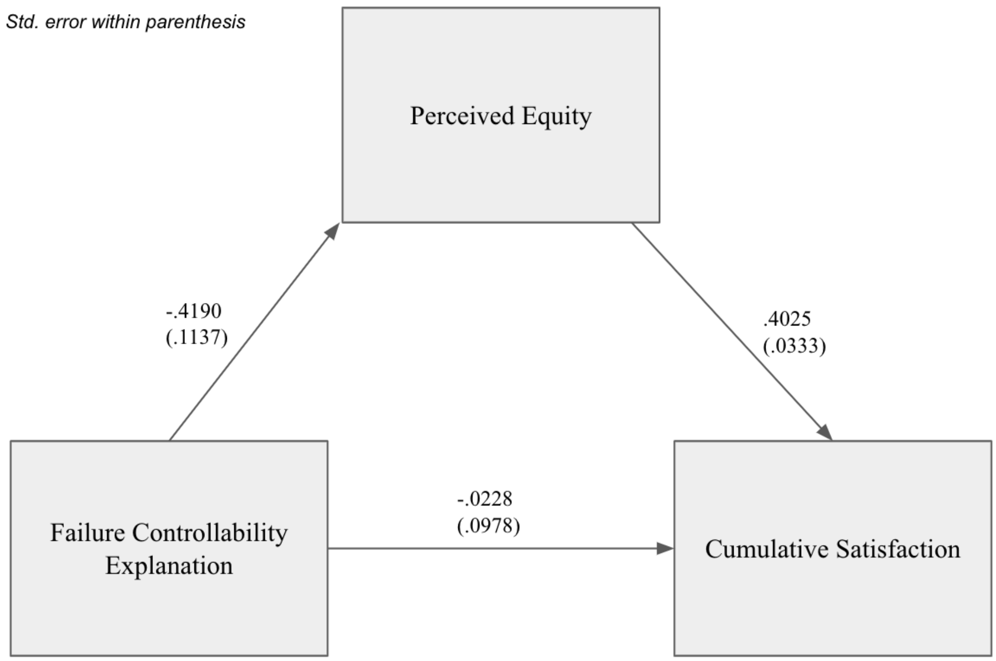
Appendix 10 – Simple Mediation Models with Path Coefficients and Standard Errors

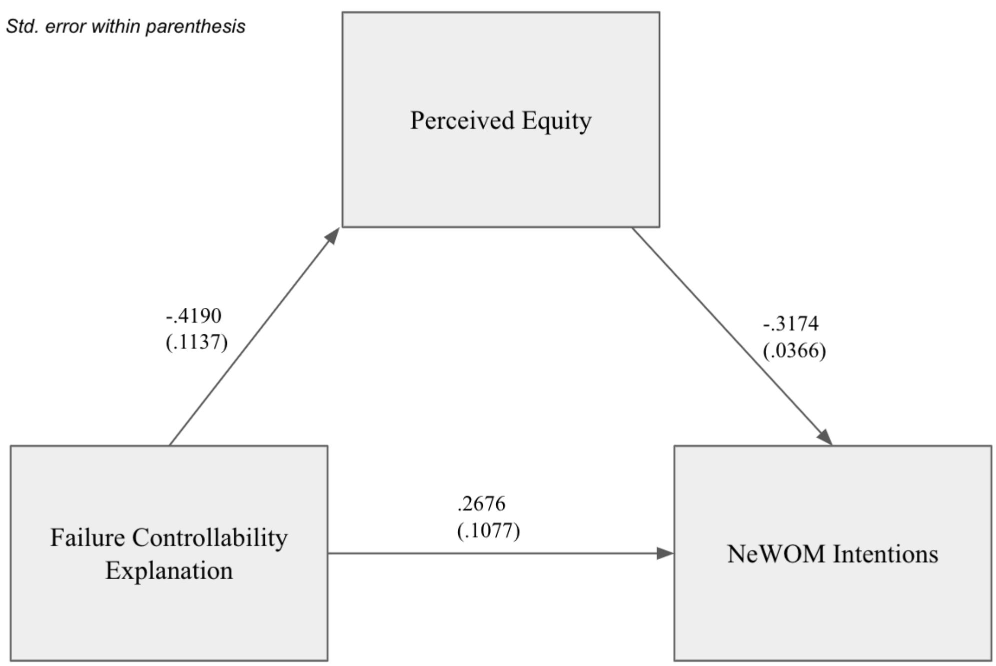





Std. error within parenthesis
Perceived Equity
.3387
(.0692)
-.3304
(.0371)
Monetary Compensation Magnitude
.0011
(.0669)
NeWOM Intentions


Std. error within parenthesis
Perceived Equity
-.4190
(.1137)
.4757
(.0350)
Failure Controllability Explanation
-.1817
(.1028)
Company Loyalty


Std. error within parenthesis
Perceived Equity
-.4190
(.1137)
.4025
(.0333)
Failure Controllability Explanation
-.0228
(.0978)
Cumulative Satisfaction


Std. error within parenthesis
Perceived Equity
-.4190
(.1137)
-.3174
(.0366)
Failure Controllability Explanation
.2676
(.1077)
NeWOM Intentions