

Is Discretionary Preferential Treatment Bad to Nonbeneficiaries? The Emotional Pathways of Envy and Boundary Conditions

Extended Abstract (Word count = 1374)

Service firms seek to differentiate the services they offer customers on the basis of their profitability. For example, they might offer preferential treatment to selected customers based on their invested time, money, or effort (e.g., loyalty or frequent flyer programs; Nunes and Drèze 2006). These structured preferential treatment programs have considerably been found to lead to increased purchase intentions (Lacey, Suh, and Morgan 2007), though they also threaten to elicit social discomfort (Jiang, Hoegg, and Dahl 2013), embarrassment, and guilt (Butori and De Bruyn 2013) among beneficiaries. However, another common practice of offering less structured or discretionary preferential treatments is understudied in service research despite its rising popularity. Throwing in free accessories with a purchase, offering a room or car rental upgrade, or waiving a service fee all constitute noncontractual, unstructured preferential treatments, in that the treatments are granted to selected customers without any explicitly stated rules or policies and at the discretion of frontline employees (Butori and De Bruyn 2013; Kumar and Shah 2004). Such discretionary preferential treatment (DPT) is selective, involves an informal granting process, and leverages the decision flexibility of frontline employees (Butori and De Bruyn 2013). Yet despite these pivotal impacts and the managerial relevance of DPT, little research considers its effect on customers' service experiences, particularly those of nonbeneficiaries who witness the DPT but do not receive it, and who are the majority in service encounters. Accordingly, we aim to address the research questions of (a) how nonbeneficiaries react to the service employee's offering of DPT; (b) what are the underlying emotional pathways (i.e., envy) in driving those nonbeneficiaries' differential behavioral outcomes; and (c) what are the

boundary conditions that can alter the effect of DPT on one's envy experiences.

Against this backdrop, drawing from social comparison and appraisal theories and relationship marketing literature, we develop a model of how nonbeneficiaries appraise and respond to witnessing service employees offering DPT to others through the separate emotional pathways, namely, *malicious* and *benign* envy, that drive their respective contrasting reactions. Specifically, we propose that DPT increases those nonbeneficiaries' experiences of both malicious and benign envy, which subsequently lead to differential behavioral outcomes. In addition, we propose that nonbeneficiaries' relationship strength with the service employee will strengthen the positive effect of DPT on malicious and benign envy through the underlying mechanisms of undeservedness and perceived control, respectively. Nevertheless, such functional (dysfunctional) effect of relationship strength in strengthening the effect of benign (malicious) envy will be enhanced (weakened) only when the treatment is offered on continuous (vs. discontinuous) basis. To test our hypotheses, we first conducted a survey (n=180) study to examine the proposed mediating mechanism of the emotional pathways of envy. Next, we conducted a laboratory experiment (n=170) with the manipulation of relationship strength between the nonbeneficiaries and the employee to testify the moderating effect of relationship strength for the relationship of DPT and envy. Finally, to enhance the external validity of our findings and to test the additional factor of treatment continuity in altering the moderating effect of relationship strength (i.e., three way interactions), we conducted a field experiment in a coffee cafe (n=330) by employing a 2 (DPT: yes vs. no) × 2 (continuity: high vs. low) between-subjects design and measured relationship strength with the employee. We also performed additional analyses to rule out and control for alternative explanations related to mood, beneficiary–nonbeneficiary similarity, perceived fairness, service quality, justification of the treatment, and

demographics.

Our results from these three studies support a dual pathway model that illuminates the mediating processes of malicious and benign envy between DPT and nonbeneficiaries' differential behavioral outcomes (derogating the beneficiary, cooperating with the employee, loyalty to the service company). The findings also uncover a double-edged sword effect of a strong nonbeneficiary–employee relationship, which enhances the effects of DPT on both malicious and benign envy. Interestingly, this enhancing effect of relationship strength for eliciting malicious (benign) envy can be reduced (strengthened) if the treatment is offered on a continuous rather than discontinuous basis.

Taken together, our research contributes to the existing literature in a few ways. First, we extend prior studies on preferential treatment by focusing on DPT, a common but understudied type of preferential treatment, and nonbeneficiaries' services experiences. The results offer new insights for the design and implementation of DPT that can minimize negative effects or even induce positive effects among nonbeneficiaries, such that we complement findings on effective preferential treatments for beneficiaries and may help managers create win–win situations in offering DPTs. Second, we propose the dual pathway model to illuminate how nonbeneficiaries of DPT develop both malicious and benign envy, which differentially affect their subsequent contrasting behaviors. This dual pathway model elucidates DPT as an important customer relationship tool that can lead to nonbeneficiaries' constructive efforts to improve their potential to attain similar treatment in the future in addition to possible adverse, scornful reactions, through the elicitation of benign and malicious envy, respectively. These new insights contest a traditional view and suggest that offering DPT can have positive, as opposed to just negative, consequences, even for nonbeneficiaries. Third, we identify nonbeneficiary–employee

relationship strength as a boundary condition for the effects of DPT on envy. A strong relationship emerges as a double-edged sword that enhances the development of both benign and malicious envy when DPT is offered: While a stronger relationship strength may lead the nonbeneficiary to perceive more control over the potential for attaining similar treatment in the future and so benign envy will be elicited, it may also lead him or her to believe that the others are relatively less deserving of the preferential treatment (Reczek, Haws, and Summers 2014), evoking malicious envy. Our empirical demonstration of these mediated moderation mechanisms further extends prior work on appraisal patterns related to control and deservingness, by shedding new light on nonbeneficiary-employee relationship strength as a boundary condition that drives these distinct appraisal processes. Fourth, we introduce the continuity of the preferential treatment as a crucial, overlooked feature that can reduce (strengthen) the enhancing effect of relationship strength on malicious (benign) envy when the treatment is offered on a continuous rather than discontinuous basis. These findings suggest how managers should consider and address DPT features and customer-employee relationship in concert, to maximize the benefits of offering DPT by not only delighting beneficiaries but also not upsetting or even enticing nonbeneficiaries.

Accordingly, on the managerial front, we offer several key implications for firms. *First*, our research reveals that nonbeneficiaries can have contrasting (negative and positive) reactions to witnessing DPT. Service companies cannot ignore these reactions of nonbeneficiaries, because the benefits they receive from granting preferential treatments to selected customers could be outweighed (enhanced) by the costs incurred (merits generated) from negative (positive) reactions of the nonbeneficiaries or the majority in service encounters. *Second*, customers could be attracted, even if they receive the short end of the stick. Our findings suggest that the

reactions of nonbeneficiaries depend on whether malicious or benign envy is the dominant emotional experience elicited. Service firms can use DPT to motivate even nonbeneficiaries, particularly those with a strong relationship with the employee, to engage in constructive behaviors (e.g., being more cooperative with the employee and loyal to the company) by offering continuous DPT. *Third*, our findings reveal a double-edged sword effect for a close relationship between the nonbeneficiary and service employee; greater relationship strength increases nonbeneficiaries' experience of both benign and malicious envy. These results imply that service companies that encourage their employees to build relationships with customers must take care when it comes to offering DPT, particularly on a discontinuous basis and especially in front of nonbeneficiaries who are regular customers with strong relationships with service employees. *Finally*, offering DPT on a continuous basis favorably reduces this double-edged sword effect of nonbeneficiary–employee relationship strength by strengthening (weakening) the functional (dysfunctional) effect of relationship strength on the link between DPT and benign (malicious) envy. Managers should consider offering DPT on a continuous basis to motivate nonbeneficiaries (particularly those with strong relationships with the employee) to exhibit constructive behaviors. If DPT must be offered on a limited basis, service companies should remind employees with the discretion to offer the DPT to account for their relationships by selecting customers with whom they have stronger relationships for DPT.

Keywords

Discretionary preferential treatment, malicious envy, benign envy, social comparison theory, appraisal theory, relationship strength, treatment continuity