

An Investigation of Nonbeneficiary Reactions to Discretionary Preferential Treatments

KIMMY WA CHAN¹

CHI KIN (BENNETT) YIM²

TAESHIK GONG³

¹School of Business, Hong Kong Baptist University, Kowloon Tong, Hong Kong

²Faculty of Business and Economics, University of Hong Kong, Pok Fu Lam, Hong Kong

³College of Business and Economics, Hanyang University ERICA, Seoul, South Korea

Kimmy Wa Chan is Professor of Marketing, Department of Marketing, School of Business, Hong Kong Baptist University. Chi Kin (Bennett) Yim is Professor of Marketing, Faculty of Business and Economics, University of Hong Kong. Taeshik Gong is Assistant Professor of Marketing, Division of Business Administration, College of Business and Economics, Hanyang University ERICA. This research is supported by a faculty research grant (FRG167340) awarded to the first author

Correspondence:

Kimmy Wa Chan,
School of Business, Hong Kong Baptist University,
WLB505, Wing Lung Bank Business Building,
Renfrew Road, Kowloon Tong,
Hong Kong.

Email: kimmychan@hkbu.edu.hk

Tel: (852) 3411 7758

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Abstract

Offering discretionary preferential treatments (DPTs) to selected customers is a prevalent practice in hospitality services, yet its nature and effects on nonbeneficiaries are unclear.

Drawing from social comparison and appraisal theories and relationship marketing literature, this study examines how nonbeneficiaries appraise and respond to witnessing service employees offering DPTs to others through the separate emotions of malicious and benign envy, that drive their respective contrasting reactions. Nonbeneficiaries' relationship strength with the firm and their perceived continuity of the preferential treatment further alter the proposed effects on experiences of envy. A customer survey and three experiments (laboratory and field) consistently affirm the distinctiveness of DPT and support a dual pathway model of the mediating processes of malicious and benign envy on nonbeneficiaries' behavioral outcomes (e.g., 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–firm relationship: It 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 preferential treatment is perceived to be available on an ongoing basis.

Keywords

Discretionary preferential treatments, malicious envy, benign envy, social comparisons, relationship strength, treatment continuity

Customers are considered a critical element of firms' marketing assets and effective customer relationship management is expected to affect firm profits directly (Ascarza et al. 2017; Bolton, Lemon, and Verhoef 2004). Firms thus seek to differentiate the services they offer customers as a way to increase their competitive advantage. In addition to the traditional, structured preferential treatments (PTs) (e.g., loyalty or frequent flyer programs) (Kivetz and Simonson 2003), some firms, particularly those in the hospitality industry, have resorted to explore a less structured form of PTs, namely discretionary preferential treatments (DPTs), with the selective granting of non-contractual advantages to a limited number of customers at the discretion of frontline employees (Butori and De Bruyn 2013). For example, the Korean restaurant chain CJ Foodville allows its employees to offer free dining coupons to customers at their discretion, in addition to the corporate privileges granted by its loyalty program (Channel 2017). The Ritz-Carlton permits its staff to spend up to US\$2,000 for offering free treats or room upgrades to selected guests to create outstanding customer experiences (see Web Appendix A for more anecdotal examples of DPTs). In essence, beneficiaries of DPTs are selected according to employees' personal judgment, though usually with some general guidelines provided by the firm. Such customer relationship management (CRM) tool encourages decision flexibility by frontline employees (Butori and De Bruyn 2013) and avoids the negative reactions that might result from customer demotions (Wagner, Hennig-Thurau, and Rudolph 2009). Rather, it offers unexpected, surprise benefits, above and beyond the core services (O'Brien and Jones 1995). Despite these impacts and managerial relevance, relatively few studies examine DPTs.

Moreover, many service encounters between service providers and customers often unfold in the presence of other customers. Being so, customers will make comparative observations and assessment of the treatment other customers receive vis-a-vis what they themselves receive

(Colm, Ordanini, and Parasuraman 2017). An unfavorable upward comparison of others' better treatment may prompt dysfunctional behaviors of the nonbeneficiaries (Huefner and Hunt 2000) such as being rude, uncivil, and uncooperative (Henkel et al. 2017), which subsequently induce stress for the service provider, spoil experience of other customers, and even damage the financial wellbeing of the company (Harris and Reynolds 2003). Thus, it is important to consider the perspective of nonbeneficiaries and investigate their emotional and behavioral responses toward the firm's offering of DPTs. Appraisal theory predicts that people who witness PTs granted to others might engage in social comparisons, which likely produces the emotion of envy (Lange and Crusius 2015; Roseman, Antonious, and Jose 1996). Envy is likely felt by customers in service encounters because they are highly receptive of others' service experiences (Anaya et al. 2016). Envy involves comparative inferiority and envious people attempt to alleviate these feelings by reducing the disparity between themselves and the person they envy (Heider 1958) by either pulling others down or improving themselves (Parrott and Smith 1993). We propose that a nonbeneficiary witnessing others receiving DPTs may evoke two distinct emotions of envy that in turn leads to different action tendencies. First, malicious envy, represents the conventional view of envy, is a more defensive response in which discomfort with an upward social comparison leads to ill feelings toward the beneficiaries and service provider.¹ Second, benign envy represents a more constructive response that the nonbeneficiary is motivated to invest more efforts to improve his or her position (Parrott and Smith 1993). These distinct emotional states

¹ Prior literature has predominately focused on the malicious form of envy and established its features as one's feeling of ill will and resentment toward others, or even behaviors to harm others (e.g., workplace envy), however, the intensity of these malicious responses could vary depending on contexts (Anaya et al. 2016). For instance, malicious responses could be more prominent in a domain that is more personally significant (Boardman, Raciti, and Lawley 2016). Witnessing a DPT such as the offer of a free drink in a restaurant (as compared to an airline seat upgrade to first class), might induce an ill will but probably not likely to evoke vengeful and vindictive responses toward the beneficiary. Thus, it is important not to regard the conceptualization of malicious envy responses in this study as the norm. We use the labels of malicious and benign envy simply to follow prior literature's classification of different facets of envy (Lange et al. 2018; Van de Ven, Zeelenberg, and Pieters 2009).

affect behaviors in different ways, and thus, their relative strength may determine whether the nonbeneficiary ultimately responds in a retributive or constructive fashion.

Both appraisal theory and relationship marketing literature further suggest that appraisals depend on not only the stimulus (e.g., DPT) but also individual factors that establish links between stimuli and elicited emotions. We thus move beyond a traditional focus on the two parties (i.e., the envious and the envied) to examine how the strength of the nonbeneficiary's relationship with the service firm, manifested as a close interaction and relational bond (Bolton, Lemon, and Verhoef 2004; Crosby, Evans, and Cowles 1990), functions as a boundary condition of the effects of DPT on envy. Furthermore, the perceived continuity of DPT, a particularly relevant design feature due to the discretionary nature of DPTs, has not been examined.

Perceived continuity refers to nonbeneficiaries' perception of whether the DPT will be available on a continuous (vs. one-off) basis. In practice, firms offering DPTs on a continuous basis is rather common. A pretest showed that 57.1% of customers (n=147) witnessed DPTs offered in the hospitality industry on a continuous basis (see Web Appendix B). Appraisal theory suggests that one's perceived certainty or probability of occurrence of a future event will further influence people's assessment of an unfavorable situation, together with their appraisals of individual factors (Roseman, Antoniou, and Jose 1996), we thus investigate how nonbeneficiaries' perceived continuity of DPT further alters the moderating effects of nonbeneficiary–firm relationship strength.

With these considerations, this research makes several contributions to extant literature. First, we extend prior studies by focusing on DPT, an important but understudied form of PTs, and its effects on nonbeneficiaries' services experiences, particularly in the hospitality industry. The hospitality industry is one of the largest economic sectors in the world and where PTs are

prevalent and believed to be highly important (Butori and De Bruyn 2013; Camilleri 2018). Moreover, the hospitality industry has particularly rich and accessible individual-level customer information which can better inform and guide the employees' discretionary acts of offering preferential treatments. By systematically assessing the popularity of DPT and its distinction from structured PT and related service behaviors (e.g., sweethearting, adaptive selling), we also illuminate the importance of DPT and derive new insights for its design and implementation. Second, we enrich research on customer copresence influence in services (e.g., Colm, Ordanini and Parasuraman 2017) by proposing a dual pathway model to illustrate how nonbeneficiaries of DPTs develop both malicious and benign envy toward the beneficiaries, which differentially affect their subsequent behaviors. This model identifies the offering of DPTs as a potential tool that prompts nonbeneficiaries' constructive efforts to improve their likelihood of attaining similar treatments in the future through the elicitation of benign envy. These new insights contest a traditional view that suggests offering PTs mostly leads to negative consequences (e.g., dysfunctional consumer behaviors induced by perceived unfairness) among nonbeneficiaries (Harris and Reynolds 2003; Huefner and Hunt 2000). Third, we reveal that a stronger relationship with the firm may lead the nonbeneficiary to perceive more control over attaining a similar DPT in the future and thus elicit benign envy, but it also may lead the nonbeneficiary to believe that others are relatively less deserving of the DPT, evoking malicious envy. These mediated moderation mechanisms shed new lights on nonbeneficiary–firm relationship strength as a boundary condition that drives distinct appraisals. Finally, we identify nonbeneficiaries' perceived continuity of DPT as a crucial factor that can reduce (strengthen) the enhancing effect of relationship strength on malicious (benign) envy when the perceived continuity of the treatment is high (vs. low). These findings suggest guidelines for how managers should address

DPTs' features and customer–firm relationships in concert, to maximize the benefits of offering DPTs by delighting beneficiaries while avoiding upsetting, or even enticing, nonbeneficiaries.

We depict the conceptual framework in Figure 1.

-- Figure 1 about here --

THEORETICAL BACKGROUND AND HYPOTHESES DEVELOPMENT

Nature of DPTs and Comparisons with Other Employee Service Behaviors

The offering of DPTs is prevalent across various hospitality industries (e.g., airline, hotel, and café/restaurant) (see Web Appendix C for an exploratory study involving interviews with executives). In contrast to structured PTs that offer benefits to selected customers based on their invested time, money, or effort (e.g., loyalty program), offering DPTs is a practice where a firm authorizes its employees to target selective customers, at their own discretion and personal judgement, for granting noncontractual advantages that provide unexpected benefits, above and beyond the core service performance, to surprise and delight them (Butori and De Bruyn 2013; Gwinner, Gremler, and Bitner 1998). For instance, DPTs offered include discounted products, free food or drink, free upgrades, etc. and employees select beneficiaries using criteria such as customers' characteristics (e.g., someone who looks nice) or events (e.g., birthday) (see Web Appendices A and C). In other words, the benefits received from DPTs are unexpected and something extra to the beneficiaries. There are thus no costs occur in obtaining the DPT and is not likely to induce negative experiences. On the contrary, the offering of structured PTs to selected customers are based on contractual and publicly stated rules and policies (Wagner, Hennig-Thurau, and Rudolph 2009). Thus, the benefits received are expected and likely to be known in advance by the beneficiaries. Switching costs would also incur as the reward must be earned through effortful and loyal behaviors.

The discretionary and flexible nature of DPT also makes it somewhat similar to other employee service behaviors, such as adaptive selling (Boorum, Goolsby, and Ramsey 1998), customization (Gwinner et al. 2005), problem-solving orientation (Sirdeshmukh, Singh, and Sabol 2002), or sweethearting (Brady, Voorhees, and Brusco 2012). Yet it differs from these constructs in key ways. For example, unlike customization, DPT does not impose any additional costs on beneficiaries. DPT is also different from the reactive approach of employees' problem-solving orientation or reactions to service failures. Finally, though sweethearting involves employee discretion, it constitutes an illicit act of the employee offering unauthorized PTs to friends and relatives. Table 1 and Web Appendix D clarify how DPT differs from these employee service behaviors, in ways that should be of interest to marketers.

DPT, Social Comparisons, and Envy

The copresence of customers in many service encounters gives them opportunities to observe and compare their service experiences with other customers (Colm, Ordanini, and Parasuraman 2017). According to social comparison theory (Festinger 1954), witnessing superior treatments received by other customers may trigger, consciously or unconsciously, an upward social comparison that subsequently evoke feeling of envy (Parrott and Smith 1993). For instance, a traveler who sees someone else receive a free hotel upgrade may experience envy because of the visibility and initiation of social comparisons that cause one's standing compared to others as inferior (Anaya et al. 2016).

Two Facets of Envy: Malicious and Benign Envy

Envy involves a complex suite of emotions that result from upward comparisons when a "person lacks another's superior quality, achievement, or possession and either desires it or wishes that the other lacked it" (Parrott and Smith 1993, p. 906). In essence, envy is based on

one's engagement in social comparisons which occurs automatically and without consciousness (Lange and Crusius 2015). Envy might occur in just or unjust situations and relate to fair or unfair advantages (Smith et al. 1994). For example, a person could be envious of another's promotion, which she or he desires but does not get, even if the promotion is justified and fair (Rawls 1971; van de Ven, Zeelenberg, and Pieters 2009).

Recent research also notes that envy is not a unitary reaction (Lange and Crusius 2015), but instead takes two distinct forms: malicious or benign, which invoke different action tendencies. The hope that an envied person suffers a setback implies malicious envy (Smith et al. 1999), which activates efforts to equalize one's own outcomes with those of the envied others, by derogating them. But envy also has a positive facet (Parrott and Smith 1993), such that people who experience benign envy still may feel frustrated and inferior, but it is not linked to any derogation of the envied others. Rather, they are motivated to gain the advantage held by others with an effort to close the gap through striving (Huguet et al. 2001).

Retributive Reactions to DPTs through Malicious Envy. Nonbeneficiaries of DPTs may develop malicious envy that encourages their tendency to engage in retributive behaviors, such as derogating the beneficiaries or expressing ill will toward them (Smith et al. 1999). Doing so helps the envious person maintain a positive sense of self and provides an outlet for negative emotional impulses (Fox and Spector 2005). Unfriendliness associated with malicious envy also might be directed at the source of the perceived inferiority (Vecchio 1995). In a service setting, a nonbeneficiary of DPTs who experiences malicious envy due to the comparative observation of better treatment received by others may display dysfunctional behaviors such as being less cooperative with the service provider or exhibiting reduced loyalty toward the company (Colm, Ordanini and Parasuraman 2017; Harris and Reynolds 2003). Formally,

H₁: Malicious envy mediates the effect of DPT on the nonbeneficiary's intentions to (a) derogate the beneficiary, (b) reduce cooperation with the employee, and (c) exhibit less loyalty to the company.

Constructive Reactions to DPTs through Benign Envy. When people fall short of attaining an outcome they value, they may develop a stronger desire for it and feel more motivated to obtain it (Parrott and Smith 1993). Thus, benign envy is elicited when the envier perceives high control to attain the envied person's superior status (Lange, Weidman, and Crusius 2018). For example, Huguet et al. (2001, p. 558) note that "seeing another person succeed may increase the motivation to improve." Lockwood and Kunda (1997) also suggest that concentrating on what leads to others' success can enhance people's own self-evaluation. A motive to increase the chances of receiving preferential treatments in the future, due to benign envy, may lead nonbeneficiaries to exhibit more constructive behaviors (van de Ven, Zeelenberg, and Pieters 2012), such as increasing cooperation with the employee and/or exhibiting more loyalty to the company. The expectation is that such behaviors ultimately will evoke improved treatments, similar to the outcomes enjoyed by existing DPT beneficiaries. Therefore,²

H₂: Benign envy mediates the effect of DPT on the nonbeneficiary's intentions to (a) increase cooperation with the employee and (b) exhibit more loyalty to the company.

Boundary Conditions for the Effect of DPT on Envy

In addition to this proposed dual pathway model of the mediation of envy, we respond to calls by van de Ven, Zeelenberg, and Pieters (2012) to further investigate boundary conditions that might determine when people feel more malicious or benign envy and thereby become motivated to behave retributively or constructively, respectively.

Nonbeneficiary–Firm Relationship Strength. Appraisal theory implies varied relations

²We expect an insignificant effect of benign envy on the behavioral intention to derogate the beneficiary and do not formally hypothesize this effect.

between stimuli and emotions. That is, the same stimulus (e.g., witnessing a DPT) may lead to different emotions because people appraise the same situation differently, depending on personal factors such as their expectations and self-efficacy (Moors 2018). Thus, we include nonbeneficiary–firm relationship strength as a boundary condition for the effect of DPT on envy. A relational bond with the firm likely influences the nonbeneficiary’s expectations of efficacy or control over attaining the special treatment (Kenny, Kashy, and Cook 2006) and one’s perceived deservedness of the others in receiving the treatment (Reczek, Haws, and Summers 2014).

Deservedness and perceived control are two core appraisal dimensions for the experience of envy. Prior research suggests that an upward comparison with people who do not deserve the advantage elicits malicious envy (van de Ven, Zeelenberg, and Pieters 2012). Whereas if an advantage obtained by others is within the nonbeneficiaries’ control, it should lead to inspiration and emulation (Lockwood and Kunda 1997). Applying to this research, stronger relationships heighten customers’ expectations of PTs from the service provider, such as additional services, extra attention, or personal recognition (Gwinner, Gremler, and Bitner 1998). Even if the outcome is a randomly determined lottery, they subjectively expect a higher chance of receiving it, because of their close link with and investments in the firm, whereas others are less deserving of this favorable outcome (the “lucky loyalty effect”; Reczek, Haws, and Summers 2014). Therefore, the stronger the relationship between the nonbeneficiary and the firm, the more malicious envy the nonbeneficiary likely experiences, because he or she tends to appraise others receiving the DPT as less deserving of this better treatment. Formally:

H₃: Nonbeneficiary–firm relationship strength moderates the effect of DPT on the nonbeneficiary’s feeling of malicious envy, such that the positive effect on malicious envy is greater when the nonbeneficiary–firm relationship is stronger.

A stronger relationship with the firm also could enhance the nonbeneficiary’s feeling of benign envy, because he or she may perceive greater control over the potential to receive a

similar treatment in the future (Ilgen, Fisher, and Taylor 1979). In related findings, people who perceive high self-efficacy (i.e., feel more capable of obtaining a treatment in the future because of their strong relationship with the service provider) tend to perceive envy as a challenge or opportunity to learn and grow (Baron, Byrne, and Griffitt 1974). Kenny, Kashy, and Cook (2006) further suggest that as a relationship grows stronger, parties exert increasingly strong influences on one another's preferences and decisions. Analogously, nonbeneficiaries who have invested in good relationships with the firm may believe they can somehow control the service outcomes and decisions of the firm. Thus, we posit that:

H₄: Nonbeneficiary–firm relationship strength moderates the effect of DPT on the nonbeneficiary's feeling of benign envy, such that the positive effect on benign envy is greater when the nonbeneficiary–firm relationship is stronger.

Perceived Continuity of Discretionary Preferential Treatment. The moderating effect of nonbeneficiary–firm relationship strength (as a personal factor) may further depend on the nonbeneficiary's sense of the likelihood of receiving the DPT. Appraisal theory suggests that people are motivated to pursue goals when they feel hopeful, because they believe they can execute the means to attain the desired outcome (i.e., agency thinking) and have clear routes to obtain it (i.e., pathway thinking) (Snyder 2002). A DPT that is perceived to be available on an ongoing basis provides more certainty and signals a higher probability of obtaining the favorable outcome in the future, especially among nonbeneficiaries who have strong relationships with the firm. Because they feel hopeful that they can exert their perceived control and will receive the treatment, their benign envy thus increases even further. In addition, the nonbeneficiaries might view the current failure to obtain this treatment as a specific, exceptional situation (Avey et al. 2008), thus be more motivated to respond in positive ways (Strauss et al. 2014).

Relatedly, attribution theory predicts that when an outcome is perceived as controllable, people believe they can take certain steps to increase their likelihood of a desirable outcome

(Folkes 1988). However, if there is no chance of future success, the pathway to the goal is blocked, and people exhibit ineffective coping and negative emotions (Chang and DeSimone 2001). If the nonbeneficiaries perceive that the DPT will not be offered again, they likely feel hopeless and do not see any clear pathway to achieving it, which increases the elicitation of malicious envy. Even nonbeneficiaries having strong relationship with the firm might not experience benign envy in this case, because the pathway to the goal is blocked (Roseman, Antonious, and Jose 1996). Therefore, we posit:

- H₅: When the perceived continuity of DPT is high, its positive effect on the nonbeneficiary's malicious (benign) envy is weakened (strengthened) if the nonbeneficiary–firm relationship is strong (vs. weak).
- H₆: When the perceived continuity of DPT is low, its positive effect on the nonbeneficiary's malicious (benign) envy is strengthened (weakened) if the nonbeneficiary–firm relationship is strong (vs. weak).

We conducted a customer survey and three (laboratory and field) experiments to ascertain the popularity and distinctiveness of DPTs, and test the hypotheses in hospitality service contexts.

STUDY 1: CUSTOMER SURVEY

Study 1 aims to (1) assess the popularity of DPTs from nonbeneficiaries' perspective, particularly in hospitality services, and its distinction from other employee service behaviors (Web Appendix D provides the details), (2) examine the roles of malicious and benign envy in mediating the impact of DPTs on nonbeneficiaries' behaviors (H₁ and H₂), and (3) rule out alternative explanations based on service quality, mood, and gender.

Design and Procedure

For this study, conducted on Amazon Mechanical Turk (MTurk), we provided respondents with a definition and a few real-life examples of DPTs upfront. Next, we asked the respondents to recall a recent experience in which they had witnessed a DPT offered to other customers (not themselves). Among the 303 potential respondents, 225 could recall an experience in the past

one year in which they were nonbeneficiaries of DPTs; we then asked them to provide information about their experiences (e.g., service industries and DPTs involved). Two of the authors judged the descriptions independently and disqualified 45 responses because they referred to other service behaviors (8 loyalty programs, 15 service failures, and 22 sweethearting behaviors). Thus, we retained 180 (59.4%) qualified responses (66.1% female, mean age = 31.8 years) pertained to various service settings, including cafés/restaurants (22.8%), hotels (13.9%), airlines (12.2%), grocers (10.6%), retail (7.8%), financial services (6.1%), car rental (5.6%), and others (21.0%) (see examples in Web Appendix A). Among the 180 qualified experiences, 63% of them ($n = 113$) are from sub-sectors of the hospitality industry, which we use for subsequent analyses.³ We provide the descriptive statistics in Table 2, Panel a.

-- Table 2 about here --

Measures

We measure DPT as a second-order factor with the preferential treatment (3 items, e.g., “the other customer was treated preferentially relative to me” ($\alpha = .71$), Steinhoff and Palmatier 2016) and its discretionary nature (3 items, e.g., “the employee has discretion in selecting which customer to receive the treatment” ($\alpha = .84$), Butori and De Bruyn 2013) as two first-order indicators. We treat DPT as a latent factor with summated first-order indicators⁴ to reduce the complexity for structural model analyses and hypotheses testing (Anderson and Gerbing 1988).

For malicious and benign envy, we adapted six items for each scale (Lange and Crusius 2015; van de Ven, Zeelenberg, and Pieters 2012), such as “I wish that the other customer did not receive the favorable treatment” ($\alpha = .94$) and “I am motivated to exert more effort to obtain the

³ Results remain robust regardless of whether the full or sub-sample was used in analyses.

⁴ The coefficient paths of the two summated first-order indicators are preferential treatment (.75) and discretionary nature (.76). Goodness-of-fit indices of this model are satisfactory ($\chi^2_{(8)} = 11.31, p = .19, CFI = .98, TLI = .97, RMSEA = .06$).

favorable treatment from the staff next time” ($\alpha = .86$), respectively. We adapted measures from prior studies (Bove et al. 2009; Fein and Spencer 1997) to capture derogating the beneficiary (3 items, e.g., “The other customer was rude”; $\alpha = .93$), cooperating with the employee (3 items, e.g., “I take the initiative to cooperate with the staff”; $\alpha = .91$), and loyalty to the service company (2 items, e.g., “I will continue to visit this store”; $\alpha = .78$) (see the Appendix for details). We also checked for common method bias, which is of minimal concern.⁵

DPTs in the Hospitality Industry and Mediation of Envy

With confirmatory factor analysis (CFA) in LISREL 8 (Jöreskog and Sorbom 1993), we test the six-factor model that includes DPT, malicious and benign envy, and the three behavioral outcomes. The measurement model provides a satisfactory fit to the data ($\chi^2_{(194)} = 402.53, p < .001$, confirmatory fit index [CFI] = .90, Tucker-Lewis index [TLI] = .90, root mean square error of approximation [RMSEA] = .08). In terms of convergent validity, all factor loadings are significant ($p < .01$). The composite reliability for each factor exceeds .70, and the average variance extracted (AVE) is greater than .50 for each factor. The shared variance between all pairs of constructs is also lower than the AVE of each construct (Fornell and Larcker 1981), demonstrating satisfactory discriminant validity.

We conduct multiple mediation analyses using bootstrapping methods to test for indirect effects (Preacher and Hayes 2008). All the 95% confidence intervals (CI) of the indirect effect of DPT on the outcomes, through malicious envy, exclude 0 (derogating the beneficiary CI [.02, .42]; cooperating with the employee CI [-.12, -.02]; loyalty to the company CI [-.19, -.06]).

⁵ We statistically controlled for potential common method bias (Podsakoff et al. 2003). Harmon’s one-factor test showed that the first factor did not account for a majority of the variance (32.45%). We also used the marker variable technique, with the item “To what extent do you enjoy shopping in a store with customers from diverse background?” (7-point scale), which should be conceptually unrelated to both our predictions and the criterion variables. All coefficients remained significant after we controlled for this marker variable.

We obtain similar results for benign envy as the mediator, such that the CIs for the indirect effect of DPT exclude 0 (cooperating with the employee CI [.09, .26]; loyalty to the company CI [.03, .29]). As expected, the indirect effect of DPT on derogating the beneficiary through benign envy is not significant (CI [-.06, .21]). These results support H₁ and H₂.

Our results remain robust even when controlling for nonbeneficiaries' perceptions of service quality (i.e., "What do you think of the employee's service quality?" 1 = "very poor"; 7 = "very good"), mood (happy, joyful, pleasant, $\alpha = .91$; Pham et al. 2001), and gender.

Discussion

These findings corroborate the popularity of DPTs from nonbeneficiaries' perspective, particularly in the hospitality industry. Furthermore, we identify DPT as distinct from related employee service behaviors. The results also support our dual pathway model, in which DPT relates to retributive (constructive) behavioral intentions toward the beneficiary, service employee, and company through malicious (benign) envy.

STUDY 2: SCENARIO EXPERIMENT

Study 2 aims to (1) examine the moderating effect of nonbeneficiary–firm relationship (H₃ and H₄), (2) empirically demonstrate the respective underlying mechanisms of undeservedness and perceived control, and (3) rule out an additional alternative explanation related to perceived fairness. We use hotel services, a main sub-sector of the hospitality industry and a common context for studying preferential treatments (Anaya et al. 2016), as the study context.

Design and Procedures

For this study, we recruited 164 respondents (53% female, mean age = 38.42 years) who are postgraduate students taking courses of Master of Business Administration (MBA) and Executive EMBA students at a major university in South Korea to participate on a voluntary

basis. They were randomly assigned to a 2 (DPT: yes vs. no) \times 2 (nonbeneficiary–firm relationship strength: strong vs. weak) between-subjects design. We asked participants to engage in a mental projection task to think and feel as if they were in a specific service situation involving a hotel check-in.

To manipulate DPT, we described a scenario in which the participant overheard a conversation between a frontline employee and another customer about selecting who (a few vs. all customers) would be offered a 50% off on the first night stay to celebrate the hotel’s 10th anniversary, and whether the participant received the offer. In the DPT condition, only a few customers, selected at the discretion of the employee, receive the offer, and the participant was not one of them; in the no DPT condition, all customers, including the participant, would receive the offer. To manipulate nonbeneficiary–firm relationship strength, we used verbal descriptions about the length of the participant’s engagement with the hotel. In the strong relationship condition, the participant read, “You are a *regular* customer of this hotel that you have stayed *many times before*.” In the weak relationship condition, the participant instead read, “You are a *new* customer and this is the *first time* you stay at this hotel” (see Web Appendix E).

Measures

We measure the manipulation check of DPT ($\alpha = .79$), malicious ($\alpha = .91$) and benign ($\alpha = .87$) envy with the same items as in Study 1, with some minor wording modifications. We include manipulation checks for nonbeneficiary–firm relationship strength (4 items, “weak–strong / distant–close / unfriendly–friendly / short–long”; $\alpha = .92$) (Bolton, Lemon and Verhoef 2004; Palmatier et al. 2006), perceived undeservedness (3 items, e.g., “The other customer did not deserve to be selected to receive the discount offer”; $\alpha = .88$), and perceived control (5 items, e.g., “I have the ability to influence the chance of receiving the discount offer from this hotel in

the future”; $\alpha = .93$) (1 = strongly disagree to 7 = strongly agree). We also include measures of service quality and fairness (3 items, e.g., “In general, the hotel employee treated me fairly”; $\alpha = .94$) to rule out these alternative explanations. Finally, participants reported their perceived realism of the service situation (7-point scale, 3 items, e.g., “In general, I think the scenario is highly unrealistic–highly realistic”; $\alpha = .83$) and demographic information. Descriptive statistics are reported in Table 2, Panel b.

Results

Manipulation Checks. A one-way analysis of variance (ANOVA) shows that participants in the DPT condition report a significantly higher level of perceived discretionary preferential treatment ($M = 5.77$) than those in the no DPT condition ($M = 4.00$; $F(1, 162) = 113.02, p < .01$). Participants in the strong relationship condition report a significantly higher level of nonbeneficiary–firm relationship strength ($M = 5.65$) than those in the weak condition ($M = 2.69$; $F(1, 162) = 199.97, p < .01$). Our manipulations of DPT and relationship strength thus are successful. Participants perceive the scenario as realistic ($M = 5.95$; $SD = 1.52, p < .05$).

Moderating Effect of Nonbeneficiary–Firm Relationship Strength. For malicious envy, the 2 (DPT: yes vs. no) \times 2 (relationship strength: strong vs. weak) ANOVA reveals significant main effects of both DPT ($F(1, 160) = 12.23, p < .01$) and relationship strength ($F(1, 160) = 18.04, p < .01$), qualified by a significant interaction effect ($F(1, 160) = 11.21, p < .01$). The interaction plot in Figure 2, Panel a, reveals that in the strong relationship condition, participants experience more malicious envy when the DPT is present ($M_{\text{DPT}} = 5.97$; $M_{\text{No DPT}} = 3.73$; $t(61) = 4.27, p < .01$). If the relationship is weak, the level of malicious envy reveals no significant difference across conditions marked by the presence or absence of DPT.

Regarding benign envy, the ANOVA reveals significant main effects of both DPT ($F(1, 160) = 11.17, p < .01$) and relationship strength ($F(1, 160) = 14.16, p < .01$), qualified by a significant interaction effect ($F(1, 160) = 13.44, p < .01$). In Figure 2, Panel b, in the strong relationship condition, participants experience more benign envy when the DPT is present ($M_{\text{DPT}} = 6.19; M_{\text{No DPT}} = 4.09; t(61) = 4.24, p < .01$). Conversely, when the relationship is weak, the level of benign envy shows no significant difference across DPT conditions. Therefore, the effects of DPT on nonbeneficiaries' elicitation of malicious and benign envy are intensified when nonbeneficiary–firm relationship strength is strong (vs. weak), in support of H₃ and H₄.

-- Figures 2a and 2b about here --

Underlying Mechanisms. To test the underlying mechanisms of undeservedness and perceived control, we conduct a bootstrap analysis with PROCESS model 7 (moderated mediation). When the relationship is strong, the mediating effect of DPT on malicious envy through undeservedness is significant (CI [.31, .75]), but it is not significant when the relationship is weak (CI [-.32, .17]). The mediating effect of DPT on benign envy through perceived control also is significant when the relationship is strong (CI [.03, .54]), but it is not when the relationship is weak (CI [-.57, .02]). We thus obtain initial evidence that undeservedness and perceived control lead to malicious and benign envy, respectively.⁶

Alternative Explanations. In addition to service quality, we also control for perceived fairness of the treatment. Prior research on structured PTs suggests that envy relates to perceived unfairness (e.g., van de Ven, Zeelenberg, and Pieters 2009). Our results indicate no significant differences of both perceived service quality and fairness across conditions. All findings remain

⁶Bootstrap analyses showed that in both strong and weak relationship strength conditions, the mediating effect of DPT on benign envy through undeservedness is not significant (strong CI [-.16, .45]; weak CI [-.21, .09]), nor is the mediating effect of DPT on malicious envy through perceived control (strong CI [-.38, .04]; weak CI [-.41, .04]).

robust with the inclusion of these control variables.

Discussion

These findings confirm the moderating effect of nonbeneficiary–firm relationship strength on the link between DPT and envy. They also offer preliminary evidence of a mediated moderation effect, by which DPTs increase nonbeneficiaries’ malicious and benign envy through unique underlying mechanisms (undeservedness and perceived control, respectively) when their relationship with the firm is strong (vs. weak).

STUDY 3: FIELD EXPERIMENT

This last study aims to (1) examine the perceived continuity of DPT as a boundary condition for the moderating effect of nonbeneficiary–firm relationship strength (H₅ and H₆), and (2) replicate and enhance the external validity of our findings in a real service setting.

Design and Procedure

Study 3 focuses on café/restaurant where preferential treatment is commonly seen (e.g., Anaya et al. 2016; Butori and DeBruyn 2013). We collected field data from a coffee café in Seoul, South Korea. In this service context, customers’ experiences often go beyond the cup of coffee, involving emotional connections with other customers, store features, and employees (Walsh et al. 2011). Trained interviewers approached 365 customers who visited the café during a period of two weeks; 330 (58.5% female, mean age = 35.3 years) agreed to participate in the field experiment. We employed a 2 (DPT: yes vs. no) × 2 (continuity of the DPT: high vs. low) between-subjects design and measured relationship strength with the firm. Four scenarios were randomly assigned to participants in a sequential manner; the field experiment was conducted during non-crowded times across morning, afternoon tea, and evening hours.

We recruited eight confederates (both women and men, to ensure gender-matched

experimental designs; Lange and Crusius 2015) and four interviewers to administer the survey (conducted on an iPad, to reduce interviewers' influence) and answer questions about each participant's cooperative behaviors. We spent a week training the confederates, interviewers, and service employees to implement our manipulations properly. When a potential participant⁷ came into the café and sat down, a confederate of the same gender would sit beside this participant. A trained employee would approach the confederate to administer the randomly assigned scenario, following a prescribed script with our manipulations of DPT and continuity of the DPT (see Web Appendix F for details). After the confederate placed an order with the employee, in front of the target participant, he or she would pretend to go to the restroom and leave the table. Then an interviewer would step in and invite the target participant to answer a survey about service experiences at the café, and particularly how other customers influence his or her experiences, with an incentive of gift certificates worth 10,000 KRW (\approx USD9), redeemable at the café.

To manipulate DPT, the scenarios describe either a service employee offering a free trial of a new cake developed by the café to a few selected customers at his or her discretion (DPT condition) or a 50% discount trial of the new cake available to all customers (no DPT condition). To manipulate the perceived continuity of DPT, we indicate that the offer was available every day for two weeks (high-continuity condition) or only available today (low-continuity condition).

Measures

The survey started by asking participants about the frequency of their visits to this café, an item to capture customers' actual relationship strength with the firm (e.g., Palmatier et al. 2006). Then they had to recall the gender of the customer (i.e., confederate) sitting beside them (specifically, on their left or right side). This item confirms that the comparison other, who is the

⁷ To rule out the potential effects of the social presence of friends, we only invited people who visited the coffee shop alone to participate in this study.

topic of the rest of the questions, is the confederate. Participants then responded to the same questions about the manipulation check for DPT ($\alpha = .87$) as in Study 2 and three items of the perceived continuity of DPT (e.g., “The offer of new cake trial will be available next time”; $\alpha = .88$), and their envy experiences, the three behavioral outcomes, and control variables.

Descriptive statistics are presented in Table 2, Panel c. After completing the survey, participants approached the interviewer to return the iPad and received their incentives. The interviewer then continued to observe the participants from a distance and noted their cooperative behaviors.

Results

Manipulation Checks. A one-way ANOVA shows that participants in the DPT condition report a significantly higher level of perceived discretionary preferential treatment ($M = 6.16$) than those in the no DPT condition ($M = 3.09$; $F(1,328) = 876.53, p < .01$). Another ANOVA shows that participants in the high-continuity condition report a significantly higher level of perceived continuity of the offer ($M = 3.94$) than those in the low-continuity condition ($M = 3.33$; $F(1,328) = 30.84, p < .01$).

Mediating Effects of Envy. To test H_1 and H_2 , we conduct a bootstrap analysis with malicious and benign envy as multiple mediators to examine whether DPTs influence nonbeneficiaries’ behavioral outcomes (Preacher and Hayes 2008). The 95% CIs of the indirect effect of DPT through malicious envy exclude 0 (derogating the beneficiary CI [.12, .64]; cooperating with the employee CI [-.22, -.08]; loyalty to the company CI [-.34, -.13]), in support of H_1 . Similarly, a bootstrap analysis supports the mediation of benign envy, because neither CI includes 0 (cooperating with the employee CI [.08, .18]; loyalty to the company CI [.04, .15]), in support of H_2 . The lack of mediating influence of benign envy on derogating the beneficiary (CI [-.21, .02]) also is as expected. The main effects of DPT on the three behavioral outcomes become

nonsignificant when we include malicious and benign envy.

Moderating Effects on Malicious Envy. A regression analysis features malicious envy as the dependent variable and DPT, the mean-centered relationship strength, perceived continuity of DPT, and their two- and three-way interactions as independent variables. The results reveal a significant three-way interaction ($\beta = -.63, p < .01$). When the perceived continuity of DPT is low (i.e., the offer is only available today), the regression analysis indicates significant main effects of both DPT ($\beta = .38, p < .01$) and relationship strength ($\beta = .39, p < .01$) and their significant two-way interaction effect ($\beta = .57, p < .01$) on malicious envy. As in Figure 3, Panel a, in the low-continuity condition, participants having stronger relationship with the firm experience more malicious envy if the DPT is present ($\beta = .48, p < .01$). For those with weaker relationship, the level of malicious envy is not significantly different across the DPT present and absent conditions ($\beta = .03, p > .10$).

When the perceived continuity of DPTs is high (i.e., DPT is available for two weeks), the regression analysis indicates significant main effects of DPT ($\beta = .17, p < .01$) and relationship strength ($\beta = -.14, p < .05$), and a significant two-way interaction effect ($\beta = -.19, p < .05$), on malicious envy. As in Figure 3, Panel b, in the high-continuity condition and for those participants with strong relationship with the firm, the level of malicious envy reveals no significant difference between the DPT and no DPT conditions ($\beta = .09, p > .10$). In contrast, participants with weaker relationship experience more malicious envy if the DPT is present ($\beta = .18, p < .05$), in support of H₅.

Moderating Effects on Benign Envy. We examine benign envy as another dependent variable, using a similar analysis. A regression analysis reveals a significant three-way interaction effect ($\beta = .43, p < .01$). When in the low-continuity condition, we find significant main effects of DPT

($\beta = -.12, p < .01$) and relationship strength ($\beta = -.17, p < .01$), and a significant two-way interaction effect ($\beta = -.19, p < .05$). As in Figure 3, Panel c, in the low-continuity condition, participants having stronger relationship with the firm experience less benign envy if the DPT is present ($\beta = -.18, p < .05$). For those participant with weaker relationship, the level of benign envy indicates no significant differences across DPT conditions ($\beta = .05, p > .10$). Whereas in the high-continuity condition, we find significant main effects of DPT ($\beta = .28, p < .01$) and relationship strength ($\beta = .29, p < .01$), and a significant two-way interaction effect ($\beta = .51, p < .01$) on benign envy. As in Figure 3, Panel d, in the high-continuity condition, participants having stronger relationship with the firm experience more benign envy if the DPT is present ($\beta = .38, p < .01$). For participants with weaker relationship, the level of benign envy indicates no significant differences across DPT conditions ($\beta = .12, p > .10$). These findings support H₆.

-- Figures 3a–3d about here --

Alternative Explanations. We find no significant differences in perceived fairness or service quality across DPT conditions. Our results also remain robust after controlling for their effects.

Discussion

Study 3 provides corroborative evidence in a real-world service setting to support the mediations of malicious and benign envy (Study 1) and moderation of relationship strength (Study 2). It also extends Study 2 findings by demonstrating that a stronger relationship alleviates malicious envy and enhances benign envy only if the perceived continuity of DPT is high. When the perceived continuity of DPT is low, a stronger relationship with the firm could backfire and increase nonbeneficiaries' malicious envy while decreasing their benign envy.

SUPPLEMENTARY STUDY

To investigate whether DPTs offered with or without justifiable reasons influences

nonbeneficiaries' perceptions and behaviors (Ben-Ze'ev 1992), we conduct a supplementary study (see Web Appendix G) with 336 participants. Using the same design as in Study 2, we add a manipulation of the level of justification of the treatment offered (high vs. low vs. no), along with the manipulations of DPT (yes vs. no) and relationship strength (strong vs. weak).

The results reveal robust patterns regarding mediations through malicious and benign envy and the moderation of nonbeneficiary–firm relationship strength, regardless of whether the DPT is offered with reasons involving different degrees of justification or without any reasons. The findings also remain unchanged when we control for the effect of perceived fairness. Therefore, this study substantiates our findings and supports H₁–H₄. Yet it is interesting to note that the effect of DPT on malicious envy and the moderating effect of relationship strength seem weaker in the DPT–high justification (cf. low- or no-justification) condition. That is, the nonbeneficiary might regard the beneficiary as more deserving of the highly justified treatment and given that the DPT reflects adherence to some specific criteria for selecting beneficiaries, just a close relationship with the firm would not help the nonbeneficiary much.⁸

GENERAL DISCUSSION

Effective CRM practices are expected to affect firm profits directly (Ascarza et al. 2017). Therefore, in line with the relationship marketing principle that customers should not be treated the same, firms are bestowing preferential treatments on targeted customers (Steinhoff and Palmatier 2016). Despite its frequent use in the hospitality industry, relatively less attention has been directed toward DPTs, an unstructured and noncontractual type of PTs offered at employees' discretion (Butori and De Bruyn 2013). Moreover, given customer copresence influence and potential negative consequences (e.g., dysfunctional customer behaviors) of

⁸ We also capture and demonstrate that participants indeed engaged in upward social comparison in the DPT conditions. Please see Web Appendix G.

observing others' better treatments (Colm, Ordanini, and Parasuraman 2017; Harris and Reynolds 2003; Henkel, Rafaeli, and Lemmink 2017), it is crucial to investigate nonbeneficiaries' reactions toward the offering of DPTs to others, but not themselves. Using data collected from a customer survey and three (laboratory and field) experiments, we establish the salience of offering DPTs as a business practice and distinguish it from structured PTs and related employee service behaviors such as adaptive selling and sweethearting. We also reveal that nonbeneficiaries react to DPTs by exhibiting retributive (constructive) behavioral intentions, reflecting their emotional experience of malicious (benign) envy. Results also indicate that a strong nonbeneficiary–firm relationship has two-sided moderating effects, in that it intensifies nonbeneficiaries' elicitation of both malicious and benign envy, through their appraisals of undeservedness and perceived control, respectively, in response to a DPT. Nonbeneficiaries' perceived continuity of DPT further alters these moderating effects. A stronger relationship helps alleviate (enhance) malicious (benign) envy, but only if the DPT is perceived to be continuous. The merits of a strong nonbeneficiary–firm relationship vanish when the DPT is perceived to have low continuity (e.g., available on a one-off basis), such that less benign but more malicious envy will be elicited. Results of a supplementary study further confirm that the effects of DPT on envy and the moderation of nonbeneficiary–firm relationship strength hold regardless of the justification offered for the DPT.

Theoretical Implications

Our research provides several theoretical implications. First, prior research has mainly focused on structured PTs and its effects on beneficiaries' behavioral outcomes, we instead investigate the understudied practice of DPT and its effect on nonbeneficiaries' emotional experiences. We obtain evidence from multiple studies that supports the prevalence of DPTs and

nonbeneficiaries witnessing DPTs offered on a continuous/ongoing basis across various industries and sub-sectors of hospitality services. These results help establish the foundation for other theoretical implications of our research.

Second, some prior studies are in favor of offering structured PTs, out of concern that both beneficiaries and nonbeneficiaries might perceive unfairness and to guard against sweethearting behaviors (Brady, Voorhees, and Brusco 2012). However, we argue that structured PTs and DPTs differ and have their own merits, such that “what matters is not only what a company does but how it does it” (Steinhoff and Palmatier 2016, p. 103). With this research, we identify offering DPTs as a crucial CRM tool, distinguishes from other employee service behaviors, that is contingent on several factors that require managerial attention. Specifically, we highlight the perils that service companies might encounter, if they ignore the consequences on nonbeneficiaries, particularly because of customer copresence influence in service encounters (Colm, Ordanini and Parasuraman 2017).

Third, prior studies of the effect of PTs on nonbeneficiaries tend to focus on the single theoretical mechanism of perceived unfairness (Steinhoff and Palmatier 2016) and highlight negative rather than any potential positive consequences (cf. Lo, Lynch, and Staelin 2007). By distinguishing two facets of envy and their contrasting action tendencies, this study extends prior research by acknowledging both positive and negative consequences of offering DPTs, even for nonbeneficiaries. Our findings also extend studies that examine both types of envy (van de Ven, Zeelenberg, and Pieters 2009) by specifying distinct, additive influences on behaviors toward not just the envied other but also the agent (i.e., employee and company) that administers the preferential treatment. We thus suggest the need to understand the role that other parties play in a triadic envy episode in future research (Anaya et al. 2016).

Fourth, close customer-firm relationships are known to increase customer satisfaction and stimulate positive word-of-mouth (WOM) (Bolton, Lemon, and Verhoef 2004). Yet, we adopt a contingency approach to reveal a potential dark side of a strong nonbeneficiary–firm relationship. Even though strong relationship with the firm increases nonbeneficiaries’ benign envy through greater perceived control over attaining similar treatments in the future, it strengthens the positive effect of DPT on malicious envy through an appraisal of the beneficiary’s undeservedness. These mediated moderation analyses also enrich prior work on the two key appraisal patterns that lead to envy by offering new insights on boundary conditions (e.g., relationship strength).

Fifth, we identify perceived continuity (high vs. low) as a crucial feature of the DPT that nonbeneficiaries consider when developing their envy emotions. This additional boundary condition for the effects of DPT extends existing literature that mostly focuses on exclusivity and visibility as key features of PTs (e.g., Butori and De Bruyn 2013). We provide a temporal perspective, in the sense of considering treatment duration, which suggests an interesting avenue for theoretical and empirical efforts to understand how the interplay of the features of DPTs affects nonbeneficiaries’ service experiences.

Finally, we offer additional insights into the interrelationships of envy, unfairness, and justification. Particularly, both malicious and benign envy can arise among nonbeneficiaries, regardless of justification—though we also acknowledge the weaker effect of DPT on the experience of malicious envy and a less salient role of a strong relationship with the firm when the DPT appears justified.

Managerial Implications

Offering DPTs as a CRM Tool. Offering DPTs could be an effective CRM tool because it

allows firms to surprise and delight their customers. As we show, offering DPTs is a rather common business practice particularly in the hospitality industry; it can enhance beneficiaries' service experiences but also appeal to nonbeneficiaries, depending on whether they predominantly experience malicious or benign envy. Service firms thus might use DPTs to motivate customers, particularly those that they have developed strong relationships, to engage in constructive behaviors (e.g., cooperate) by offering DPTs on a continuous basis that can encourage nonbeneficiaries to remain hopeful about obtaining the PT in the future.

Enhanced Perceived Control and Reduced Undeservedness. Service managers need to evaluate DPTs on their ability to stimulate positive effects among beneficiaries while still preventing (enhancing) negative (positive) reactions of nonbeneficiaries. Particularly, the underlying mechanisms of perceived control and deservedness that lead to envy experience warrant greater attention in customer relationship evaluations. These mechanisms and envy experiences go far beyond mere rational value consideration by customers. Managers should apply their understanding of nonbeneficiaries' psychology when implementing DPTs. To avoid nonbeneficiaries' feeling that they are treated badly, not differently, employees could help nonbeneficiaries understand why the DPT was granted in order to enhance the perceived deservedness of beneficiaries. For example, an employee who offers a customer a free drink for being helpful could openly praise the customer for her helpful act so that nonbeneficiaries would be informed about the reason or even educated as to how to attain similar preferential treatments. Though findings from our supplementary study reveal that DPTs offered with justifiable reason cannot eliminate malicious envy completely, it could be reduced.

Double-Edged Sword Effect of Stronger Relationships. Our findings do not suggest that service companies should restrain from strengthening relationships with their customers. Instead,

they should be cognizant of the negative effect of offering DPTs on nonbeneficiaries who have strong relationships with their firms and seek to alleviate this negative effect. Training employees to identify those frequent customers and only offered DPTs when they could be offered on a continuous basis are crucial.

Designing DPTs to Promote Hope. A DPT perceived to have high continuity favorably reduces the double-edged sword effect of relationship strength and creates a hopeful pathway for nonbeneficiaries to achieve similar treatments in the future. Thus, managers should consider offering DPTs on a continuous basis (e.g., available for a longer period) and framing them accordingly to induce more perceived control and hope among nonbeneficiaries (particularly those with strong firm relationships). Firms may also help nonbeneficiaries reconceptualize not receiving the PT as a challenge rather than threat. To provide them with a pathway to attain the preferential treatment, service firms could offer multiple and smaller or more accessible goals (Chang and DeSimone 2001), e.g., granting DPTs based on a multitude of reasons such as being a regular customer, being nice or polite, etc. If DPTs must be offered on a one-off basis (e.g., available only today), employees can exercise their discretion to select those with stronger relationships with the firm to receive the DPT (e.g., those visit more often).

Support Needed for Successful Implementation. Because DPTs rely on employees' discretion and personal judgment, its implementation requires close monitoring to avoid too much autonomy of the employees in turning DPTs into sweethearting behaviors. Even though DPTs are not governed by contractual rules and policies (cf. structured PTs), firms still can provide employees with general guidelines for whom they prefer to target with DPTs. The real-world examples we uncovered suggest that most DPTs seem to be offered to beneficiaries who meet certain general criteria (e.g., celebrating special events). Considering the relatively high

employee turnover and constant trade-off between service efficiency and attention to customers that marks most service industries, firms must find ways to facilitate the effective implementation of DPTs. For example, firms can leverage technology to track customer preferences and provide employees with an easy access to those customer information for granting customized DPTs to targeted customers.

Limitations and Further Research

Several limitations of our study suggest further research opportunities. First, the empirical evidence from multiple sources suggests that offering DPTs is a common business practice in the hospitality industry, and a substantial proportion of customers have experience as nonbeneficiaries. However, DPTs might not be equally prevalent in all service industries, particularly those conducted in private (e.g., medical, financial). Future research is required to broaden the scope of investigation to include other services contexts. Second, DPTs differ from structured PTs; a more holistic perspective is needed to assess their benefits and costs to firms. Third, the effectiveness of DPTs might depend on individual differences across nonbeneficiaries. For example, people with a strong belief in a just world believe that people generally get what they deserve, so they are more likely to experience benign envy in social comparisons (van de Ven, Zeelenberg, and Pieters 2012). Fourth, while we provide a more nuanced understanding of the effect of DPTs by examining nonbeneficiaries' malicious and benign envy, these envy responses are not meant to be the norm and their intensity could vary in different contexts (Anaya et al. 2016). Further research should examine other experiences of nonbeneficiaries to gain a more complete picture of the effect of DPTs. Finally, prior research suggests that envy is based on one's engagement in social comparisons which occur automatically and without consciousness (Lange and Crusius 2015). Results of our supplementary study offer preliminary

evidence that nonbeneficiaries indeed engage in social comparisons in the DPT conditions, but these results need to be verified in further research. Overall, we hope this research sparks interests in this fruitful, managerially relevant topic.

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Table 1. Comparison of DPT and Other Employee Service Behaviors

	Discretionary Preferential Treatment (DPT)	Structured Preferential Treatment (Structured PT)	Sweethearting	Service Adaptability		Problem-Solving Orientation
				Adaptive Selling (<i>interpersonal adaptive behaviors</i>)	Customization (<i>service-offering adaptive behavior</i>)	
Definition and purposes	An explicit strategy of the firm that authorizes its employees to use discretion to select a limited number of customers, based on their personal judgment (rather than publicly stated rules and policies) to grant non-contractual advantages as an unexpected benefits above and beyond the core services to surprise and delight customers.	An explicit strategy of the firm that authorizes the offering of structured or prespecified benefits to selected customers based on contractual and publicly stated rules and policies to reward customers for time and effort they invest in the firm (e.g., spending)	An act of employee deviance, such that frontline employees give unauthorized preferential treatment to friends or acquaintances; through this illicit behavior, employees work with complicit customers to contradict established rules and expectations and to the detriment of the firm.	An employee's ability and discretion to alter sales behaviors (e.g., presentation, communication styles) in interactions with customers, based on perceptions of the nature of the selling situation and the needs of each customer, to close the sale.	An employee's ability and discretion to select from predetermined alternatives or develop an appropriate service offering to address each customer's needs to close the sale.	An employees' ability and motivation to anticipate and resolve customers' problems that may arise during and after service exchanges.
Beneficiaries	Anyone, though selective; depends on employees' personal judgment, mostly according to unstructured guidelines (e.g., someone who is particularly polite).	Those who earn the reward, according to contractual and publicly stated rules/policies, mostly through invested time and effort.	Friends, acquaintances, or relatives.	Anyone or every customer; the employee adapts to address individual customers' specific needs and wants.		Customers who have encountered problems during or after the service process.
Degree of employees' discretion	High; selection of beneficiaries is solely based on employees' discretion, and personal judgement with some general guidelines provided by the firm.	Low; selection of beneficiaries and preferential treatment are entirely based on contractual and publicly stated rules/policies set by the firm.	High; selection of beneficiaries is solely based on employees' discretion and personal judgement; unauthorized by the firm.	High; employees adjust their presentation and communication styles to adapt to each customer's needs.	Low/moderate; employees select from predetermined offerings or develop an appropriate offering for each customer.	Low to moderate; the firm may have some recovery plans in place in case of services failures for employees to follow.
Expectedness of benefits received by beneficiaries	Unexpected and something added-on or extra.	Expected and known in advance.	Expected; sweethearting is a cooperative act that both parties are aware of and involved in.	Hard to expect; involves employees' adaptive presentation and communication styles.	Can be expected if customized service offerings are publicly announced options.	Hard to expect unless the firm has publicly announced service recovery plans.
Potential costs to beneficiaries	None; the preferential treatment is something extra, granted at no charge to the beneficiaries, and thus is not likely to induce negative experiences.	Switching costs in terms of time and effort invested in the firm; the preferential treatment must be earned through effortful and loyal behaviors.	Possible; the treatment is granted at no charge to the beneficiaries unless the illegal act is discovered and the beneficiaries are charged as conspirators.	None; employees simply adjust their presentation and communication styles to adapt to customers' needs.	May include a higher price for upgraded services, delivery delays for custom-made products, or information overload for customers who must select among options.	Effort to voice problems and psychological distress arising from service failures.

Table 2. Descriptive Statistics**a. Study 1**

Construct	M	SD	CR	AVE	1	2	3	4	5	6
1. DPT	5.37	1.15	.72	.50	1					
2. Malicious envy	3.68	1.75	.93	.66	.19*	1				
3. Benign envy	4.37	1.45	.91	.57	.16*	.52**	1			
4. Derogating the beneficiary	4.66	1.95	.95	.70	.14*	.66**	-.04	1		
5. Cooperating with the service employee	4.78	1.39	.88	.71	-.10	-.25**	.63**	-.20**	1	
6. Loyalty to the service company	5.54	1.21	.77	.63	-.15	-.22**	.19**	-.14**	.45**	1

b. Study 2

Construct	M	SD	CR	AVE	1	2	3	4	5	6
1. DPT ^a	.49	.50	n.a.	n.a.	1					
2. Nonbeneficiary–employee relationship strength ⁺	.54	.50	n.a.	n.a.	-.01	1				
3. Undeservedness	3.09	1.90	.97	.92	.41**	.45*	1			
4. Perceived control	3.24	1.72	.97	.85	.32*	.38*	.14	1		
5. Malicious envy	3.93	2.41	.95	.77	.39*	.44*	.56**	-.04	1	
6. Benign envy	5.98	2.18	.77	.53	.36**	.48*	.03	.54**	.39**	1

c. Study 3

Construct	M	SD	CR	AVE	1	2	3	4	5	6	7	8
1. DPT ^a	.49	.50	n.a.	n.a.	1							
2. Nonbeneficiary–employee relationship strength	3.52	1.37	.90	.88	.01	1						
3. Continuity of treatment ⁺	.49	.50	n.a.	n.a.	-.03	.01	1					
4. Malicious envy	3.83	1.12	.98	.82	.37**	.15**	-.09	1				
5. Benign envy	3.65	1.66	.92	.87	.41**	-.11*	.04	.22*	1			
6. Derogating the beneficiary	4.12	1.32	.96	.89	.16**	-.08	.00**	.38**	-.04	1		
7. Cooperating with the service employee	4.70	1.72	.92	.85	-.13*	.11*	.13**	-.23**	.44**	-.25**	1	
8. Loyalty to the service company	4.97	1.58	.98	.81	-.17*	.08*	.28**	-.21**	.31**	-.36**	.47**	1

Notes. Results are based on two-tailed t-tests. M = mean; SD = standard deviation; CR = composite reliability; AVE = average variance extracted; n.a. = not available.

^a Constructs manipulated in the study. ** $p < .01$, * $p < .05$.

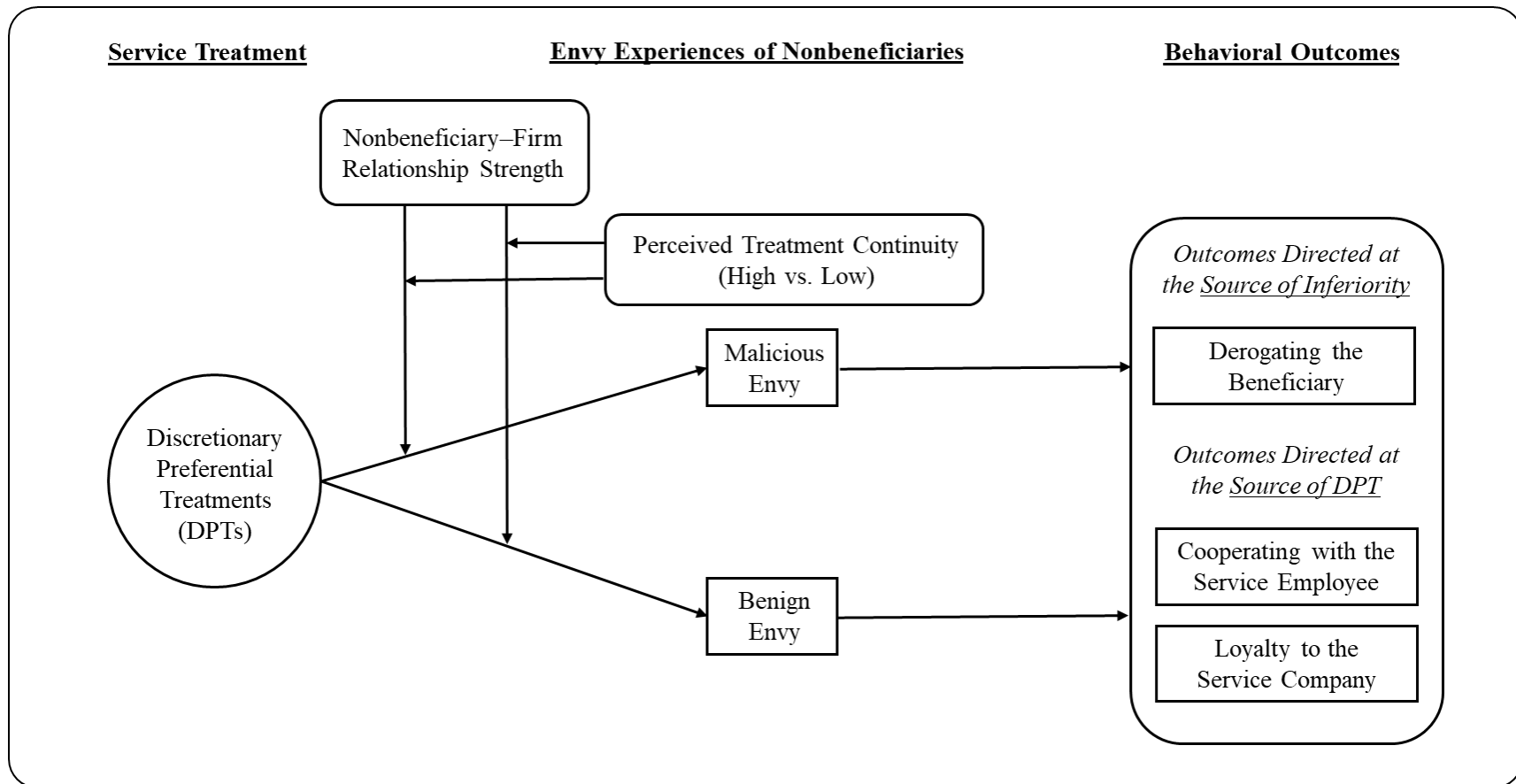
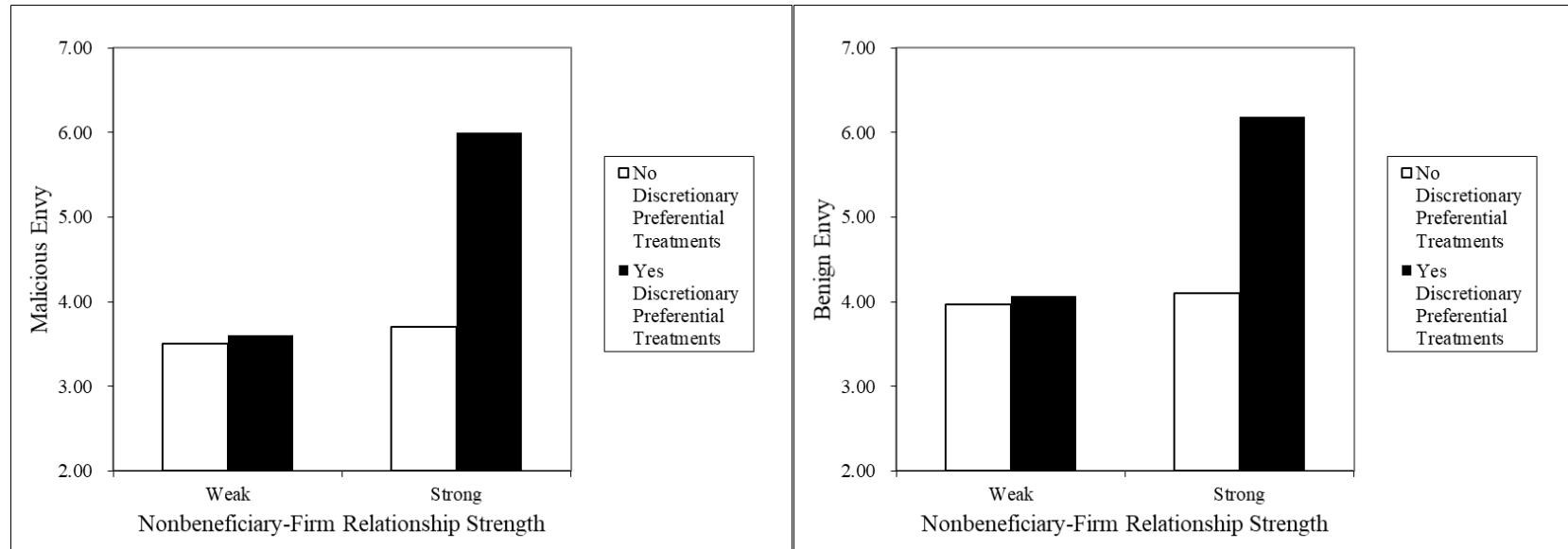


Figure 1. Conceptual Framework

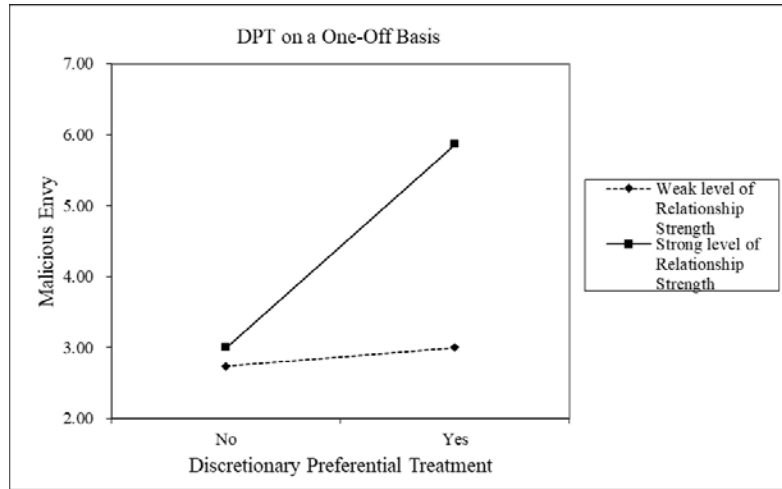


a. Interaction effect on malicious envy

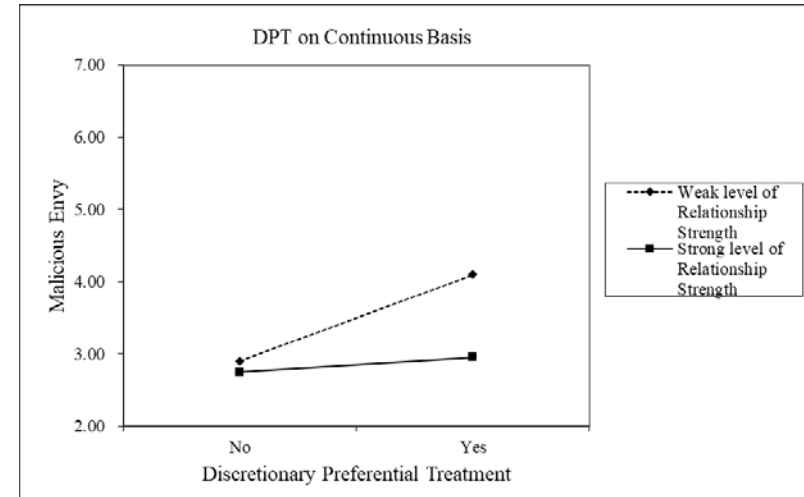
b. Interaction effect on benign envy

Figure 2. Moderating Role of Nonbeneficiary–Firm Relationship Strength (Study 2)

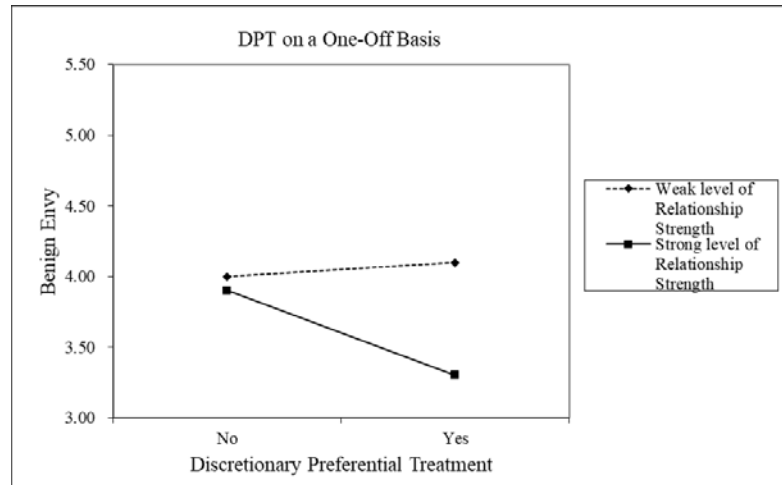
Panel a: Interaction Effects of DPTs and Relationship Strength on Malicious Envy; DPT with Low Continuity



Panel b: Interaction Effects of DPTs and Relationship Strength on Malicious Envy; DPT with High Continuity



Panel c: Interaction Effects of DPTs and Relationship Strength on Benign Envy; DPT with Low Continuity



Panel d: Interaction Effects of DPTs and Relationship Strength on Benign Envy; DPT with High Continuity

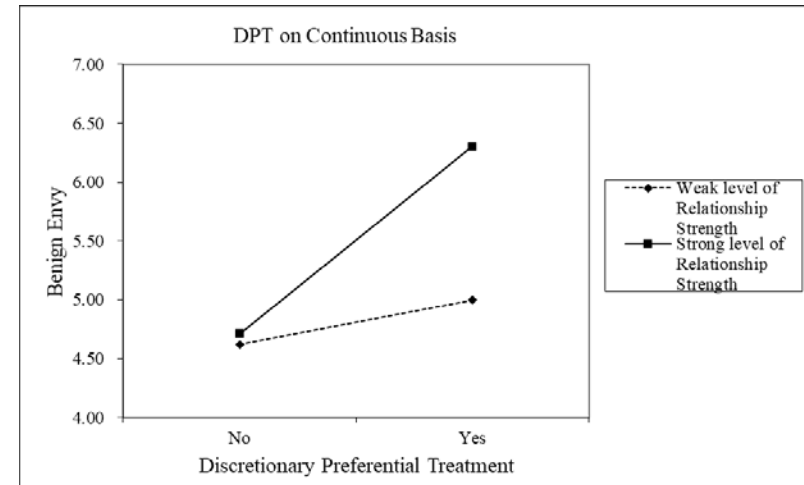


Figure 3. Three-Way Interaction with Continuity of Preferential Treatments (Study 3)

Appendix

Table A1. Construct Measurement

Discretionary preferential treatments (DPTs) (2nd order factor) $\alpha^a = .76$, $\alpha^b = .79$, $\alpha^c = .87$ (Butori and De Bruyn 2013; Steinhoff and Palmatier 2016)

Discretionary nature (1st order factor) $\alpha^a = .84$

1. That employee has the discretion in selecting which customer(s) to offer the treatment^a.
2. The employee can freely choose which customer(s) to receive the preferential treatment^a.
3. That employee is empowered by the company to choose which customer(s) to receive the preferential treatment^a.

Preferential treatment (1st order factor) $\alpha^a = .71$

1. The other customer was treated preferentially relative to me^a.
2. The other customer received something more than I did^a.
3. The favorable treatment is something that I desire to have^a.

Malicious envy $\alpha^a = .94$, $\alpha^b = .91$, $\alpha^c = .94$ (Lange and Crusius 2015; van de Ven, Zeelenberg, and Pieters 2012)

1. I envy that other customer for receiving the favorable treatment from that staff^a/ discount offer from the employee^b/ offer of new cake trial from that staff^c.
2. I wish that other customer did not receive the favorable treatment^a/ discount offer^b/offer of new cake trial^c.
3. I feel ill will toward that other customer^{a, b, c}.
4. I dislike that other customer^{a, b, c}.
5. Seeing that other customer receiving the favorable treatment from that staff makes me resent him/her^{a, b, c}.
6. I hope that other customer would not enjoy getting the favorable treatment^{a, b, c}.

Benign envy $\alpha^a = .86$, $\alpha^b = .87$, $\alpha^c = .74$

1. I feel benignly envious of that other customer who received the favorable treatment from the staff^a/the discount offer from this hotel^b/the offer of new cake trial from the staff^c.
2. I admire that other customer for getting the favorable treatment from the staff^{a, b, c}.
3. Seeing that other customer earns the favorable motivates me to find ways to obtain the favorable treatment in the future^{a, b, c}.
4. I felt inspired to also obtain the favorable treatment after the staff gave the offer to that other customer^{a, b, c}.
5. I am motivated to exert more effort to obtain the favorable treatment from the staff next time^{a, b, c}.
6. I compliment that other customer for his/her achievement of getting the favorable treatment^{a, b, c}.

Derogating the beneficiary customer $\alpha^a = .93$, $\alpha^c = .92$ (Fein and Spencer 1997; Lange and Crusius 2015)

1. The other customer was rude^{a, c}.
2. The other customer was not considerate^{a, c}.
3. The other customer was impolite^{a, c}.

Cooperating with the service employee $\alpha^a = .91$, $\alpha^c = .95$ (Bove et al. 2009)

1. I take the initiative to cooperate with the staff^{a, c}.
2. I go the extra mile to communicate problems that I experienced in the store^a/in the coffee shop^c to the staff in order to improve its services.
3. I am willing to take the extra efforts to make constructive suggestions to the staff^{a, c}.

Loyalty to the service company $\alpha^a = .78$, $\alpha^c = .96$ (Bove et al. 2009)

1. I will continue to visit this store^{a, c}.
2. I will recommend this store^a/coffee shop^c to my friends or relatives.

Undeservedness $\alpha^b = .88$ (Lange and Crusius 2015; van de Ven, Zeelenberg, and Pieters 2009)

1. The other customer did not deserve to be selected to receive the discount offer^b.
2. The other customer should not deserve to receive the discount offer from this hotel^b.
3. I am more deserved to receive the discount offer from this hotel^b (reversed).

Perceived control $\alpha^b = .93$ (Li, Fock, and Mattila 2012)

1. I have the ability to influence the chance of receiving the discount offer from this hotel in the future^b.
2. I have control over getting this hotel to offer me the discount offer next time^b.
3. I am able to get the discount offer from this hotel next time^b.
4. It will be easy to get this discount offer from this hotel next time^b.
5. It will not be difficult to get this hotel to offer me the discount offer next time if I desire^b.

Nonbeneficiary-firm relationship strength $\alpha^b = .92$ (Bolton, Lemon, and Verhoef 2004; Palmatier et al. 2006)

1. My visit to this coffee shop is very infrequent/very frequent^c.
2. My relationship with this hotel is ... 1. weak/ strong, 2. distant/ close, 3. short/ long, 4. unfriendly/ friendly^b.

Perceived continuity of DPTs $\alpha^c = .88$

The offer of new cake trial will be available ... 1. next time, 2. quite a while, 3. on a continuous basis

^a Study 1. ^b Study 2. ^c Study 3