

Reciprocity Theory: Application In Marketing In Increasing Market Share and Growth Toward Customer Satisfaction and Customer Loyalty

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Abstract: *This paper review collects a selection of high-quality books, journals, and articles. A total of 4 journals and 3 articles are reviewed. This paper can be helpful for managers to gain basic conceptual ideas on how Reciprocity theory as a driver of financial performance for the firm marketing strategy in increasing market share and growth. Customer Satisfaction and Customer Loyalty. 21st century marketing environment has changed dynamically, and companies or organizations must effectively devise strategies for responding to, and dealing with this change, while ensuring maximum customer value and satisfaction. This paper will explore how Reciprocity Theory as business marketing strategy is able to help the firm to increase its market share and growth and finally achieving high customer satisfaction and loyalty. This introductory note provides a general view of the role of reciprocity in human psychology in general and for economics in particular on how this Reciprocity Theory can be applied by business managers to increase the company market share and growth thus gaining customer satisfaction and loyalty.*

Keywords: *Reciprocity Theory, Marketing Strategy, Customer Satisfaction, Customer Loyalty*



What is the theory all about?

Reciprocity initially an art of politics in the modern world was first introduced by Benjamin Franklin (Mumford, 2002) one of the founding fathers of the United States of America as the 6th President of Pennsylvania. Benjamin Franklin exploit the art of persuasion in order to gaining favor from rival political opponents and haters as in his idea of reciprocity, in is a human nature to tend to like someone more after a good favor was done for them. In the words of Benjamin Franklin “He that has done you a kindness will be more ready to do you another than he whom you yourself have obliged”. His idea on reciprocity widely known as “*Ben Franklin Effect*” was scientifically tested by two sociologists, Jon Jecker and David Landy in 1969 a continuous study from Theory of Cognitive Dissonance by a psychology scientist Leon Festinger in 1957 (Lebowitz, 2016).

According to Merriam-Webster definition of Reciprocity as at 2020, Reciprocity is the quality or state of being reciprocal in terms mutual dependence, action, or influence as in a mutual exchange of privileges of two parties. Reciprocity can be trace to its Latin word “reciprocus” literally meaning “going back and forth” (retro-procus). It is an action and behavior of receiving and giving. A mutual exclusive of give and take, a tit for a tat, a Quid pro Quo situation. It is a social situation where a person payback of what they received from others (Chiu, Hsu, & Wang, 2006; Shiau & Luo, 2012; Watanabe et al., 2014; Wilkinson, 1984).

In 2018, two computer scientists Simone Righi and Károly Takács in their research on “Social Closure and the Evolution of Cooperation via Indirect Reciprocity”, they specify the conditions leading to the evolution of cooperation when it involves of Reciprocity.

They develop a model into six strategies which are:

1. Unconditional Defection (UD): Always defects regardless of the behavior of interaction partners,
2. Unconditional Cooperation (UC): Always cooperates regardless of the behavior of interaction partners,
3. Tit for Tat (TFT): Reciprocates the last action of the interacting partner in the given dyadic relationship,
4. Connected Reciprocity (CR): Reciprocates the last action of the interacting partner with a common connection,
5. Unconnected Reciprocity (UR): Reciprocates the last action of the interacting partner with a connection of the latter, and finally
6. Stern Judging (SJ): Rewards partners who cooperated with good partners with cooperation, partners who defected against good partners with defection, punishes partners who cooperated with bad partners with defection, and partners who defected with bad partners with cooperation (Aldashev, Carletti, & Righi, 2011; Biondi & Righi, 2016; Carletti & Righi, 2010; Righi & Takács, 2014, 2017, 2018).

In their model, they argue that reciprocity varies from one human with one another depending on each individual memory capacities. It can be either a voluntarily (Direct) or involuntarily (Indirect) behavior, which could be unconditional, conditional (Tit for Tat), unconnected, and one judgment of a situation. In Figure 1 shows the relationship between Customer and Agent. An agent treats the customer with a gift and the customer is either voluntarily or involuntary return the treat to the agent. It is a “tic to for tat” situation as accordance to the research of “Social Closure and the Evolution of Cooperation via Indirect Reciprocity “by Simone Righi and Károly Takács in 2017. In order to measure Reciprocity, it depends on how the customer interact with the agent and it is limited by the customer’s individual memory capacities which shaped by his experience on how the customer perceived the act of kindness by the agent (Righi & Takács, 2017).

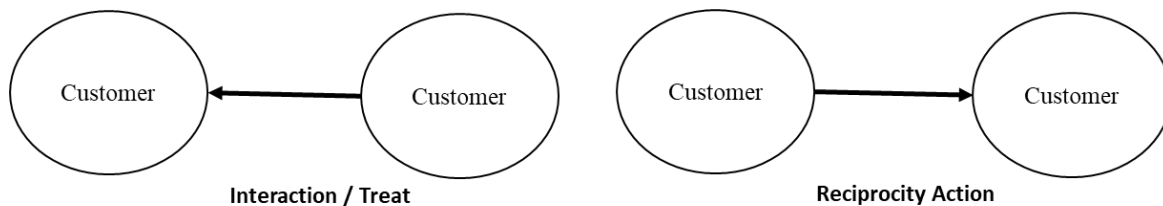


Figure 1 The Reciprocity Model (Righi & Takács, 2018)

How the theory is usable to Marketing?

Deeper understanding in the Law of Reciprocity will guide business on how to treat customers as a strategic business partner and pathing the way for businesses to succeed and endure in the dynamic challenge of business world in the 21st century. According to (Cialdini, 2001a, 2003; Cialdini & Goldstein, 2004), a psychology scientist at Regents' Professor Emeritus of Psychology and Marketing at Arizona State University in United States of America, in his research, he found that when mints were given with the restaurant bill that tips went up an average of 3.1%. According

to (Cialdini, 2007), the psychological science is that human tend to give when they receive where in business setting, customers feel obligated to reciprocate even when they don't know the person initiating. This illustrate that is either direct or indirectly that customers will tips higher and make purchase through the act of reciprocity. Reciprocity as accordance to (Cialdini, 2007) in his book "Influence: The Psychology of Persuasion", an art of social science to do business by exploiting the scientific knowledge of psychological aspect of human and effectively turned into business strategies to influence customers to act certain ways. Therefore, grasping the Law of Reciprocity and implementing it can help improve the company's marketing strategy towards is business and sales performance (Cialdini, 2001b, 2007, 2009; Cialdini & et al, 1976; Hollingworth & Hollingworth, 2006).

Another application in business was done in 1974, by two sociologists' scientists, (Kunz & Woolcott, 1976), posted 600 Christmas cards to people they did not know whom strangers for which for both them all these people are completely strangers . Some of the cards were using expensive materials and signed "Dr and Mrs. Phillip Kunz" while the rest of the cards were cheaper stationery signed from "Phillip and Joyce Kunz". They received more than 200 replies, with some of the replies are 4 pages long. The reciprocity continuously continued as Kunz received some the replies as yearly Christmas card with responses for up to 15 years (Kunz & Woolcott, 1976). This psychology study on human behavior suggest that people feel obligated to reciprocate even when they don't know the person initiating as it is an act of kindness and the reciprocity action could last as long as life cycle of that person only will limited by that person's memory. Everyone want to be kind and nice to each other and it is human nature to harmonious, appreciative, and peaceful with one another (Sallaudin Hassan & Shamsudin, 2019; M. F. Shamsudin, Nurana, Aesya, & Nabi, 2018; M. F. Shamsudin, Razak, & Salem, 2018; M. Shamsudin et al., 2015; Mohd Farid Shamsudin, Ali, Wahid, & Nadzri, 2019; Mohd Farid Shamsudin, Esa, & Ali, 2019; Mohd Farid Shamsudin, Ishak, et al., 2019)

How industry can use the theory to increase market share and growth?

Human want to be appreciate therefore a business must make sure communications with the customers aren't always about selling (Kadir & Shamsudin, 2019; Razak & Shamsudin, 2019; Salem, Shawtari, Shamsudin, & Hussain, 2016). Customer is part of market segment for a firm to increase its market share and growth it must able to commit toward high customer satisfaction and loyalty (M. F. Shamsudin, Shabi, & Salem, 2018; Mohd Farid Shamsudin & Razali, 2015). For customers to be satisfied and loyal, a company that gives customer chance to help the business, and recognizing the customer contribution as a strategic business partner that help the business to grow by treating customers with rewards and gifts will make customers feels important and a part of the company strategic business partner (Bolton & Ockenfels, 2000; Cox, 2004; Dufwenberg & Kirchsteiger, 2004; Falk & Fischbacher, 2006; Gouldner, 1960). Reciprocity involve the emotional intelligence of customers of on how the customer perceive the treatment. A positive attitude leads to customer satisfaction and eventually turning into loyalty behavior.

The general idea on why an organization must tract customer satisfaction as it both attitude and behavioral of customer therefore it is a psychological aspect of customers. Several reviews by behavioral scientists such as Robert Cialdini and Robert Levine stated that customer's satisfaction affect the organization such that:

1. Satisfied customers will buy more
2. Repeat of purchase by customers of a product of goods or services

3. Satisfied customers are loyal as they trust the organization
4. They are willing to pay more or paying in premium as they are satisfied
5. They help to gain more clients by recommending the company's product of good and services towards their family and friends.

A recent study by (Lombardo, 2019) found that customers who have a strong, positive emotional attachment to a retailer will spend 37% more with them.

In Malaysia, Maybank is Malaysia's most valuable bank brand, the fifth top brand in Asian, gaining its customer direct reciprocity via its initiative of Maybank Anniversary Rewards Campaign Boosts. Maybank Deputy President and Head of Community Financial Services, Lim Hong Tat thanked customers who supported the campaign for their loyalty toward the bank. Maybank itself is a reliable bank and through its top-notch services, it gains customer direct reciprocity as long as the customer life cycle (Maybank 2020).

The act of the industry through Corporate Social Responsibility by doing philanthropic responsibility that composed of activities containing artistic and educational characteristics and protecting the public interest. This will provide a good image for the company as customers think they will provide social benefit by purchasing the products and services of a company, they become more loyal to the business (S. Hassan, Shamsudin, & Mustapha, 2019; M.F. Shamsudin, Ali, Ali, & Shabi, 2019; M.F. Shamsudin, Razak, & Salem, 2018).

A study by (Chan & Li, 2010) have indicated that the principle of generalized reciprocity can be used in explaining the effect of Corporate Social Responsibility activities carried out by companies toward customer attitudes.

Here, I would like to quote a surah from the Al-Quran Surah al-Baqarah: verse 281 on the concept of Reciprocity in Islam:

“But of you remit it [the debt] by way of charity, that is better for you if you did but know. And be afraid of the Day when you shall be brought back to Allah. Then every person shall be paid what he earned, and they shall not be dealt with unjustly” (Surah al-Baqarah:281)

The most important point that we can gain from this part of the AL-Quran and hadith is that a person act of charity will be paid as what he earned. This Corporate Social Responsibility of recent event in 2020 of Coronavirus (Covid-19) like in technology business industry, Facebook CEO Mark Zuckerberg announced that the social media website would be allowing the World Health Organization (WHO) to post free advertisements on the Facebook website. This will increase the trust of the customers toward Facebook as customer will see Facebook as reliable and responsible entity that sensitive toward recent major issues (Girling, W. 2020).

In Malaysia as at 12th March 2020, in a news published by the Star newspaper, “The Malaysia Government launched Covid-19 fund to help those affected by outbreak”. The corporate sector in Malaysia can take part in the initiative as part of indirect reciprocity initiative. It is a fund that was launched by the Malaysia government that is open to the members of the public and corporate sector in order to combat This will increase the trust of Malaysian customers toward the brand and image of Malaysian corporate sector and thus Malaysian corporate sector may able to keep its gain strategic advantage by able to retain and attract local customers to their brand through gaining the customers invaluable loyalty toward the bank.

Limitation of the theory

Collectively, Reciprocal Theory in marketing is a psychological process-oriented theory that assume the psychological mechanisms underlying the cause and action of individual behavior. It is limited by a person experience and memory of a situation which in business setting it is what is perceived by the customer satisfaction. To increase the understanding and explanatory power of the theory of real-life situation, customer satisfaction must be the moderating variable in examining, the level of reciprocity in business settings.

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