

The Effects of Social Distance on Proposer's Offer and Responder's Intention to Accept in Online Referral Bonuses Programs under Chinese Setting

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ABSTRACT

The referral bonuses program is one of the most effective ways to attract potential customers to attend online group-buy sites. This study tends to explore the underlying mechanism on why and how the social distance between a proposer and a responder influences the proposer's sharing behavior and responder's acceptance behavior. Drawing upon the ultimatum game theory as well as social norm and market norm literature, we design three experiments to investigate this problem. The results suggest that the proposers would like to share more to the socially closer people than the distant ones, and the responders are more likely to accept the referrals from their socially closer friends than the socially distant ones. Interestingly, the result also reveals that sharing amount deviates from the fair value when social distance is near rather than far. Theoretical and practical implications are discussed.

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ICEC 2012, August 7-8, 2012, Singapore, Singapore

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Categories and Subject Descriptors

H.3 [INFORMATION STORAGE AND RETRIEVAL]: Online Information Services.

General Terms

Management, design, lab experiment, human factors.

Keywords

Group-buy websites, referral bonuses program, social distance, social norm, market norm.

1. INTRODUCTION

With the rapid diffusion of social network services (e.g., Facebook) and online virtual communities, communications among online users are much more convenient than before. Online referral bonuses program (RBP) has been becoming one of the most effective ways to attract potential consumers used by large online merchants (e.g., Groupon) [1]. In order to disseminate their websites or products to potential customers, the merchants give a monetary incentive to the current customers in order that encouraging them to recommend the websites or products to their friends and even unfamiliar people in online social network [2].

Taken as an effective way in business operation, there are some studies focusing on investigating the underlying mechanism on how it works and why it works like this [3-6].

Our careful review of the current literature suggests that most of prior researchers focus on analyzing the proposer¹ and responder's behavior under the consideration of dictator game [7]. Specifically, in RBP, the responder has no right to refuse the invitation, and the proposer can decide the division scheme of referral bonuses. However, in reality, the merchants cannot obtain potential benefit until the responders are willingness to accept the invitation and buy products from the platforms. Thus, the key determinant of a successful referral is also greatly determined by the responder accepting an invitation. Such research gap calls for research emphasizing on ultimatum game which would extend our current understanding of the proposer's sharing and responder's accepting behavior and our study is an effort toward this direction.

One great determinant of the sharing and accepting behavior is the social distance between the proposer and responder [3]. Social distance refers to the distance between different social groups which determines the different behavior rules. It could significantly influence proposers' sharing perception. Prior studies investigated the effectiveness of such incentive program [3, 4, 6]. Meanwhile, previous studies also suggest that how a responder accepts an invitation is also influenced by who send the invitation with different social distance [5, 8, 9]. Considering the influence of the social distance, this study also tries to explore how the social distance impact the behavior of proposers and responders under a collectivist culture (e.g., China).

The impact of social norm and market norm is another point of our study, which is determined by social distance. Social norm is the customary rule which governs behavior in groups and societies, which plays a pivotal role in influencing a customer's judgment and decision making in certain circumstance [10]. Market norm governs what you are willing to do for how much money. The RBP involves the division scheme of referral bonuses as market norm and the relationship between proposer and responder as social norm. With different social distance, different norms take the leading role in the RBP.

¹ In this paper, we call the existing customer who sends the referral the "proposer", and the person who responds to a referral offer as the "responder".

In this paper, drawing on literature of ultimatum game and norm theory, we explored the impacts of the social impacts on the effectiveness of RBP. In the next section, we reviewed the related literatures. The hypotheses were developed in Section 3, followed by the methodology. Section 5 analyzed the results of the experiments. Section 6 discussed the results of hypotheses. Section 7 discussed implications for theories and practices.

2. LITERATURE REVIEW

In the marketing literature, experimental work largely focused on the proposers' response to referral bonuses. The environment of RBP has many factors such as deal proneness, satisfaction, tie strength, brand strength and the bonuses structure (reward only the proposer, only the responder, or reward both). These factors impact the proposer's likelihood to make referrals [5, 9]. The responder's responses to RBP is another question, the proposer's bonuses can reduce the responder's likelihood to purchase because the proposer's bonuses could be ill-perceived by the responder and reduces the perceived sincerity of the proposer [11]. Taking the responder's response into our research would extend the current studies which only focus on the proposer's response.

Leveraging word of mouth(WOM) by existing customers have a huge impact on performance [12, 13]. Previous studies have examined topics such as the effect of social ties [8, 14], reference group influence on WOM [15, 16], and the measurement of customers' susceptibility to WOM influence [17]. Mayzlin [18] investigated the connectedness of social network's structure influences the effectiveness of buzz as a marketing instrument and the network effect moderates the payoff from a firm's investment to promote buzz. The RBP dominates direct marketing when the firm's current market penetration or the proposer's referral effectiveness is sufficiently high [4]. Proposers take the expected responder's satisfaction level with a product into consideration when deciding whether to recommend that product [3].

The Chinese culture is another factor in our research. We set the referral bonuses program in the Chinese culture whose values are based on relational orientation. The relational orientation includes respect for authority, interdependence, group-orientation and face. The interdependence and group-orientation determine the behavior of customers involving relationship. At this time they take the relationship much more important than the commerce event. They all want to gain some affection benefit in the future[19].

Guanxi is also a factor influencing the behavior of Chinese people. They could face three different ties instrumental tie, mixed tie and expressive tie. Different ties have different rules. Facing the instrumental tie, people usually make decision objectively considering the fairness. But facing the expressive tie, people make decision based on the need of members in the group. At this time, fairness is out of their consideration [20].

The RBP makes effect through the social relationship between proposer and responder. In Chinese culture, different social distance means different behavior rules such as market norm and social norm. So we extend the study of referral by social distance in Chinese setting, taking the social norm and market norm into our research.

3. HYPOTHESES

The relationship between proposer and responder and division scheme of 10\$ referral bonuses are two factors involved in our research. The RBP looks like the ultimatum game, but it has its own features. An ultimatum game [21, 22] is a two-player game where player 1, the proposer, can offer to divide a fixed pie, say \$10, by giving X to player 2 and keeping $10-X$ for himself. Player 2 then decides whether to accept or reject the offer. Both will get nothing if the offer was rejected by player 2 and will get the divisions if the offer was accepted. The proposers and responders are strangers in the standard ultimatum game. But the proposers and responders in RBP are friends. So our research extends the standard ultimatum game into friends with different social distance.

Social distance [23] describes the distance between different groups of society which is conceptualized in several different ways including affective social distance, normative social distance and interactive social distance. We adopted the concept of affective social distance in our research which is associated with affective distance, i.e., how much or little sympathy the members of a group feel for another group. Bogardus social distance scale was typically basing on this subjective-affective conception of social distance [24, 25]. According to the idea of social distance, the relationship between the proposer and the responder can be classified into three groups, i.e., good friends, acquaintances (normal friends) and strangers.

In the existing literatures, tie strength focuses on the frequency and intensity of interactions between two groups. The main idea

here is that the more the members of two groups interact, the closer they are socially related [26, 27]. The members of two groups might interact with each other quite frequently, but this does not always mean that they will feel “close” to each other or that normatively they will consider each other as the members of the same group. So the affective social distance is different from the tie strength.

3.1 Bonuses within Referrals

The group-buy website awards the proposer \$10-coupon as a referral bonus for his successful referral to his friend. Some studies tested the changes of dopamine of the subjects when they were exposed to the reward [28, 29]. Incentive salience is essentially a conditioned motivation response of a brain, usually triggered by and assigned to a reward-related stimulus. They found that dopamine’s contribution appears to be chiefly to cause “wanting” for hedonic rewards such as bonus, more than “liking” or learning for those rewards. So the bonuses influence the subjects from the physiological feature, therefore, we propose:

H1: A proposer would express more willingness to make referrals under the condition of bonus comparing without bonus.

3.2 Impact of Social Distance

In Chinese culture, people take social relationship as a part of daily life [30]. The social relationship is a factor influencing friends sharing things [31]. For people within the social relationship, he tries to figure out the implications behind the signals such as a referral from friends. What is his/her purpose for doing that? Correctly understanding of the purpose will increase the action possibility, while misunderstanding of the purpose will decrease the action possibility.

Different social distance means different difficulty for understanding each other within the relationship. People with far social distance seem to act as strangers. They do not know each other very well at this time. If a stranger give you a referral with some bonuses, you would probably ill-perceive the real purpose of him and you will probably decline the referral [11]. As the social relationship is close, People have much information to help them figure out the real meanings of that motivation. You would easily understand the referral made by a close friend, and you will probably adopt it. So we propose the following hypotheses:

H2: *A proposer would share more to socially closer people than distant one.*

H3: *A responder is more likely to accept the referral from a socially closer proposer.*

3.3 Social Distance vs. Division Scheme of Bonus

Several studies have investigated of the effects of social distance in ultimatum game settings. With the increase of social distance the share offered by the proposer is decreasing [32]. Charness reveals the family name of the responders to the proposers, which cause the share offered to the responder increasing in dictator game, but the increase in ultimatum game is not significant [33].

Social norm is about motivation rule about persons with different social relationship [34]. Different cultures have their own social norm [35]. The social distance determines the social norm. With decreasing social distance, people's behavior rule is impacted most by the social norm. The close social relationship is even worth spending time and money to maintain. Facing a stranger, people will behave more polite than an acquaintance. With the decrease of social distance, people move the focus from extrinsic things to intrinsic things. They would overlook formalized rules, which are often called informal etiquettes [36].

The idea of perceived fairness is also a focus in ultimatum game research. Many authors point out that the subjects take fairness into their consideration [37, 38]. The division scheme of referral bonuses also involves the perception of fairness.

Consideration of fairness is a kind of market norm. The market norm is a part of our life [10]. If we feel unfair in the business deal, we refuse it as the punishment for against market norm.

Regarding to RBP, the division scheme of bonuses is associated with market norm while the referral to a friend is associated with social norm. For people with different social distances, i.e., from close to far, the impact of social norm differs. With far social distance or strangers, both sides make the deal fairly according to market norm. To maintain the close social relationship, both sides of business would not take fairness into their consideration, which means they care about relationship much more than business. So we hypothesize that,

H4a: *A proposer would more likely to follow the fairness rule when sharing with the socially distant people, where the bonuses division would close the fair value.*

H4b: *A proposer would more unlikely to follow the fairness rule when sharing with the socially close people, where the bonuses division would deviate from the fair value.*

4. METHODOLOGY

A laboratory experiment was used to test our hypotheses. We test the social distance, division scheme of referral bonuses, social norm and market norm which impact the behavior of proposer and responder. To enhance the realism we set the experiment for proposer and responder separately. Subjects who attend the experiment for proposer could not attend the experiment for responder. The separately experiment for proposer and responder could avoid interaction between both sides of invitation, which is the same as the RBP online.

4.1 Participants and incentives

The 1020 subjects were undergraduate students recruited from a large public university in China. According to many experiment researches in the field of e-commerce, these subjects are best for such researches [5, 39]. Subjects were randomly assigned to one of the three experiments. They were also randomly assigned to the role of proposer or responder. To motivate them to take the experiment seriously, we paid each of the students \$20 for attending our experiments.

4.2 Variables and manipulation

The independent variables are bonuses for proposer or not, social distance between proposer and responder and division scheme of referral bonuses for responder. We adopted the concept of social distance from the studies of Bogardus social distance scale [24, 25]. According to the idea of social distance, the relationship between the proposer and the responder can be classified into three groups, i.e., good friends, acquaintances (normal friends) and strangers. Before every experiment, we explain the three social distances to subjects. After that we fix one of three social distances within the certain experiment.

Our dependent variables are intention of proposers' sending invitation, division scheme of referral bonuses offered by proposer and adoption of responder. We used a 7-point Likert scale to test the intention of proposers making referral.

4.3 Procedure

Subjects were invited to a research lab. They were first told the rule of RBP of certain group-buy websites and introduction about the character (Proposer/Responder). The experiment last about 10 minutes, the subjects will be asked to fill a questionnaire. The subjects are required to provide demographics information. The concept of social distance will also be explained before the experiment. According to the given scenario, subjects will finish the questionnaire. All the experiments are anonymous.

4.4 Pretest

In order to explore the impact of incentives on the intention of the proposer making referrals, we recruit 40 students, 20 each for the two treatments with different reward incentive. One treatment tests subjects' intention of sending referral with bonuses, the other without bonuses.

4.5 Experiment A

This experiment tried to investigate the effects of perceived social distance on the bonus share offered by the proposer to the responder. In our study, we manipulated social distance with different closeness relationships between the proposer and the responder. The proposer was required to imagine and identify the responders with different social distances, which can be a good friend (socially close), acquaintance (moderate distant), and a stranger (social distant). Then the proposers were required to write down their share of the bonus to each of the responders on the questionnaire. We recruit 480 students, 160 each for the three treatments accordingly.

4.6 Experiment B

In order to test the effects of perceived social distance on the responder's intention to accept the referral made by the proposal, we recruit 480 students, 160 each for the three treatments with different perceived social distance from good friends (close), to acquaintances (moderate) to strangers (far). A 7-point Likert scale is used to test the intention of responder's adoption of referral from proposers with different social distances.

5. DATA ANALYSIS

5.1 Manipulation Check

The manipulation of social distance was checked with Bogardus social distance scale to assess whether subjects get the correct social distance they were exposed to. Subjects were asked,"

According to the social relationship between you and your friend involved in the experiment, what is the most approaching description of your friend? (1. To close kinship by marriage, 2. To my club as personal chums, 3. To my street as neighbors, 4. Employment in my occupation, 5. Citizenship in my country.)" The means of subjects' evaluations in the three social distances were consistent with expectation: The mean was 1.76(SD=0.46) for close social distance, 3.15(SD=0.42) for medium social distance, 4.65(SD=0.63) for far social distance. A statistical analysis of the results using an analysis of variance (ANOVA) indicated that the three social distance groups were significantly different ($F=1265.5$, $p=0.00$, $MSE=330.83$). A Tukey's post hoc comparison confirmed significant differences between the three groups (Table 1). Therefore, the manipulation was successful.

Table 1. Manipulation Check Based on the Mean Difference Among Groups

Social Distance	Close	Medium	Far
Close	—	7.45*	13.27*
Medium		—	18.78*
Far			—

* $p<.01$.

5.2 Hypotheses Testing

In order to get the correct results, some factors are controlled which may influence the final results. Control check indicates that gender, age, shopping experience and group buying experience do not significantly influence the final results in all experiments.

Hypothesis 1 aims at exploring the impact of incentives on the intention of the proposer making referrals within pretest. The experimental results revealed that the participants express more willingness to recommend the website to others under the condition of reward (mean=5.617) comparing with that of no-reward (mean=3.967), and the difference is significant ($t=4.695$, $p<0.001$). Thus, hypothesis 1 is fully supported.

The second experiment tried to investigate the effects of perceived social distance on the bonus share offered by the proposer to the responder, which involve hypothesis 2, 4a and 4b. According to the experiment results, we found that the perceived social distance between the proposer and the responder significantly impacted on the shares offered by the proposer with the means were 5.44 for good friends, 4.33 for acquaintances, and 3.05 for strangers

($t=254.238$, $p<0.001$). To further explore the potential differences between each two groups, we conducted a post-hoc analysis. The result showed that each two groups were different significantly. Thus, H2 is supported.

Further, to measure the deviation value from the fair value, we analyzed the original data. We computed the original data by minus 5 and use the absolute value to test the deviation. And then we performed one-way ANOVA analysis. The result showed that the deviation derived from good friends (mean=1.62), acquaintances (mean=0.69), and strangers (mean=0.54), while $F=22.918$, and $p=0$. Thus, hypotheses H4a and H4b were fully supported.

To further explore the potential differences between each two groups, we conducted a post-hoc analysis. The result showed that group 1 (good friends) was significantly different from group 2 (acquaintances) and group 3 (strangers), while group 2 and group 3 were not significantly different.

Considering the responders, experiment B tests the effects of perceived social distance on the responder's intention to accept the referral made by the proposal. The results showed that the perceived social distance did have a significant effects on the responder's intention to accept the referral from proposer with means of 5.55 for good friends, acquaintances for 4.89, and strangers for 4.81, while $F=7.605$, and $p=0.001$. Thus, hypothesis 3 is supported.

For the potential differences between each two groups, we conducted a post-hoc analysis. The result showed that group 1 (good friends) was significantly different from group 2 (acquaintances) and group 3 (strangers), while group 2 and group 3 were not significantly different.

6. DISCUSSIONS

The character of the relationship (social distance) between proposer and responder is an important factor influencing intention of both sides. Referral bonus is another factor influencing successful referral attracting both sides of referral dividing the bonuses rationally. According to result of Hypothesis 1, the effect of reward is significantly salient. \$10 is a little money, but it is worth making a referral. Especially the referral of registering on group-buy websites would not be harmful for each other.

Different social distance determines different behavior rules. With far social distance, people take each other as strangers. With decreasing the social distance, people understand each other much more easily. When making referral, proposer fears the referral ill-perceived by responder. So proposer feels like making referral with good friends, which is easy to get the correct purpose of referral. The result of experiment A supports Hypothesis 2 just like our analysis above.

In the experiments, proposers were empowered the authority of dividing \$10 referral bonuses, aiming at finding the proposers' true opinion about making referral to friends with different social distance. With a close social relationship, people take market norm as a harmful thing for the relationship. In such situations, people take money as less important than social relationship. Proposers intend to leave almost all the referral bonuses to responders. If proposers choose to divide the referral bonuses equally, responders would ill-perceive that proposers taking them as strangers. This is harmful for social relationship among good friends. In order to maintain close social relationship, proposers do not care about the fairness of referral bonuses division. So the division of referral bonuses deviates from bisection just like the result of hypothesis 4b. With the increase of social distance, the effectiveness of market norm is increasing while the effectiveness of social norm is decreasing. Proposers want to gain as much as possible and fear responders' refusal would lead to nothing just like the result of ultimatum games. So they intend to take fairness into their consideration, which causes proposers to divide referral bonuses equally. The experiment data support hypothesis 4a.

From the perspective of responders, social distance is an important factor affecting their intention to adopt the referral. With far social distances, responders simply consider the referral according to their interest. With the decrease of social distance, the social norm comes into their consideration and their understanding of each other is increasing. If responders refuse the referral made by good friends, their social relationship may be harmed subtly. So they intend to adopt the referral from close friends. This was tested from experiment B.

We bring in the division of referral bonuses and social distance to the table, which extends extant research on RBP design for a networked social commerce. The subjects were exposed in the

scenarios of relationships with different social distances, therefore we also extend empirical research on ultimatum games.

7. CONCLUSIONS

Our study examined how proposers share their referral bonuses under the condition that they should undertake the risk of refusal by responders. Both sides of the referral approach friends with different social distance from good friends (close) to acquaintances (moderate) to strangers (far). The results revealed that with the decrease of social distance, the share of bonus offered by proposers to responders deviate from bisection of referral bonuses. The bisection of referral bonuses is a signal that both sides of invitation take fairness into their consideration which maximizes the benefit of proposers and responders bases on market norm. So with increasing of social distance, the effect of market norm is increasing and the effect of social norm is decreasing. With far social distance, proposers pay more attention to their own benefit which is a concern about fairness. When the market norm takes the leading role, people choose their motivation according to market norm rather than social norm. When the both sides of referral are good friends, people pay more attention to social norm rather than market norm. In this case, proposers do not care the division of referral bonuses.

Considering the influence of social distance in RBP, our research revealed that responders prefer the friends' referral with close social distance. The referral is a signal not only about the referral bonuses, but also the standpoint of relationship. If the motivation of proposer perceived by the responder fits for the social norm, the later will accept the referral. Otherwise, the responder may decline the referral. The social distance determines the ability to understand each other. So responders prefer the friends' referral with close social distance.

One of the most important implications for practice is that the group-buy websites should take social norm and market norm into their consideration. Both sides of the referral have their own norms guiding their motivation. The group-buy websites should categorize their customers into different kinds by social distance. The social norm and market norm should be given the same attention. The suitable referral bonuses programs could be chosen by the market norm or social norm.

8. ACKNOWLEDGMENTS

This research was supported by the Natural Science Foundation of

China (Grant# 70890081).

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