The effect of CSR initiatives on customer loyalty in the airline industry

ROMAN ASATRYAN
Department of Economics
Tomas Bata University in Zlin
Mostní 5139, 76001, Zlín
CZECH REPUBLIC
romankempo2002@yahoo.com

Abstract: - Customer loyalty is one of the most essential consumers behaviours that firms endeavor to influence through the use of Corporate Social Responsibility (CSR) as a marketing tool. Over the years, researchers have studied the impact of CSR in direct relationship to customer loyalty. In the airline industry, firms are increasingly formulating and implementing CSR policy initiatives. When managers of airlines invests resources in social responsibility activities and see the investment as an aspect of the promotion and marketing of the firm, they want to know the possible impact of such measures, particularly those that relate to the knowledge and opinions of customers of CSR, and how these impacts on the relationship between customers and airlines. The main objective of this study is to examine customer knowledge and opinions of CSR, and examine the relationship between it and customer loyalty in the Central and Eastern European (CEE) airline market. The study found that, customers of airlines tend to be concerned with airline CSR initiatives although they perceive them to be less than satisfactory. Findings from a hierarchical regression analyses indicates that, when there is a control for relationship quality, airline CSR has a marginally significant and positive association with behavioral and attitudinal loyalty. This tends to show that, the respondents regard it as important for airlines to assume their social obligations to society. However, there is a concession; there is considerable room for improvement, in terms of the CSR performance of airlines. The study also found that CSR initiatives can enhance customer loyalty with airline CSR having a marginally significant influence on behavioral and attitudinal loyalty. In addition, safety was found to be the most important concern of customers. This is followed by consumer rights, environmental protection and social participation, all of which recorded relatively high scores with regards to the airlines' CSR performance assessments.

Key-Words: - customer loyalty, corporate social responsibility, airlines

1 Introduction

Over the last decade, Corporate Social Responsibility (CSR) has received considerable attention from both academicians and practitioners in various industries. The aviation industry is no exception. The operations of airline firms have inevitable and substantial impacts on the environment and society. Various stakeholders have mounted pressure on firms in the airline industry to undertake initiatives to reduce or mitigate the negative impacts of their operations. Indeed, the European Union has been vociferous in its campaign for airline firms to act socially responsible [8]. Consequently, airlines are increasingly formulating and implementing CSR policy initiatives. When managers of airlines invest resources in social responsibility activities and see the investment as an aspect of the promotion and marketing of the firm [23], they want to know the possible impacts of such measures, particularly

those that relate to the knowledge and opinions of customers of CSR, and how these impacts the relationship between customers and airlines. The objective of all CSR initiatives is to take responsibility for all the actions of the firm as well as operate in a way that will positively impact the environment, communities, employees, consumers, and all other relevant stakeholders [11].

The relative affordability and speed of travelling by air today have made international travel accessible to many people, and it has become an integral part of their lifestyle [19]. Airline transport is a global, technologically advanced, and dynamic growth industry [13]. For airline firms, it is essential that they stay committed to meeting their customers' growing demands in a sustainable manner; and maintaining an optimal balance between economic progress, social development and environmental responsibility.

According to Creyer and Ross [6], an important stakeholder group in any business is the customers;

and customers do indeed expect firms to engage in socially responsible behavior. Studies have found that, customers are willing to reward CSR behavior of firms. It is no surprise that lately, an increasing number of consumer groups proactively search for firms with products and production methods that are considered to be *"sustainable"* which is one of the measures of CSR. In the view of Forster [10], customers have become more knowledgeable due to the increasing amount of social and economic research and are often characterized as *"sophisticated"* and *"environmentally and socially conscious."*

According to the European Commission, CSR is defined as *"the responsibility of enterprises for their impacts on society."* Specifically, the responsibility of companies is made through the integration of social, environmental, and ethical issues as well as human rights and consumer concerns into business operations and core strategies in close collaboration with stakeholders. Furthermore, Wood [24] explains that CSR is *"a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships."* That is to say that CSR is expected to provide benefits for all stakeholders in the firm. Hence, these stakeholders, in return, may develop positive behavior, attitudes and perception towards the company, which can result in various forms of benefits for the company.

2 Objective of the study

The main objective of this paper is to conceptualize the incidence of CSR in the airline industry. The paper, therefore, examines the perceived significance and performance of CSR initiatives of airline firms in the CEE market. Additionally, the conceptual model that was developed in this study was tested in order to establish the relationship between the CSR initiatives of airline firms and customer loyalty with a control over the impact of relationship quality.

3 Literature review and Conceptual framework

Over the years, researchers have studied the impact of CSR on customer loyalty in a direct relationship. Customer loyalty is one of the most essential behaviours of consumers that firms endeavor to influence through the use of CSR as a marketing tool. García de los Salmones, Crespo and Rodriguez del Bosque [12] studied the direct and indirect relationships between CSR and customer loyalty in

the mobile telephone industry and found that, there was no significant direct relation between the two variables. Nevertheless, there was an indication that, CSR tends to have a significant influence on the valuation of services by consumers' because the overall valuation of services was found to have a strong positive correlation to customer loyalty. Consequently, it was concluded that CSR tends to influence customer loyalty indirectly [12]. In a study by Liu et al. [16] on perceived CSR and customer loyalty, it was found from the regression analysis that product quality, trust, image and satisfaction tend to have a positive effect on customer loyalty. However, there was no significant direct correlation between CSR and customer loyalty. Because Liu et al. [16] used regression analysis to identify the influence of perceived CSR on the other four factors; they came to a conclusion that perceived CSR may have an indirect effect on customer loyalty.

Nonetheless, other studies have revealed a positive correlation between CSR and customer loyalty. In a review of literature by Simcic Bronn and Belliu Vrioni [22], a study was referenced stating that cause-related marketing may be a useful tool for corporations to increase customer loyalty as well as build reputation (cited in Simcic Bronn and Belliu Vrioni, [22]). A study by Du, Bhattacharya and Sen, [7] which examined the moderating impact of the degree to which the social initiatives of a brand is included into its competitive positioning on the reaction of consumer to CSR. It was found that consumers often have more favorable beliefs, and to a large extent, they reward CSR brands, in the form of their relational behaviors, such as loyalty and advocacy. They further explain that consumers often identify with the brand, are loyal to the brand, and they eventually engage in advocacy behaviors for the brand. That is to say that they willingly try new products and engage in favorable word-of-mouth publicity [7].

It has been argued by Lichtenstein, Drumwright and Braig [14] that when there is good corporate social performance it can bring about improvements in customer identification and customer support which eventually create some benefits to the company. More and more companies tend to adopt the idea that when they engage in socially responsible behaviors there is a resulting positive consequence, such as an increase in customer satisfaction. In a study by Ross, Patterson and Stutts [20], it was found that consumers are more willing to buy products from firms that actually pursue social causes. When there is enormous support for firms that put effort into CSR (like donations,

energy-programs, sponsorships) it may materialize through satisfaction in stronger loyalty of customers towards the firm. In another study by Boulstridge and Carrigan [2], it was found that consumers prefer products and services from companies considered responsible rather than products and services from companies that are seen as irresponsible. CSR also tends to influence the responses of consumers towards products through the creation of associations [3]. Brown and Dacin [3] further indicate that, when there is a positive CSR association it may lead to a positive evaluation of the company and thus have a positive impact on product evaluation and satisfaction. Similarly, when there is a negative association (such as unethical company behavior), it leads to a negative evaluation of the firm and the satisfaction derived from the product. Also, a study by Folkes and Kamins [9] proved that when positive CSR information is provided to the customer, such a positive association can lead to positive customer behavior. However, Sen and Bhattacharya [21] in their research found that a positive evaluation of the firm is triggered by CSR if the customer highly identifies with the firm. Additionally, they explain that the evaluation of the company by consumers' tend to be more sensitive to negative information on CSR than on positive information on CSR [21]. In summary, it can be said that CSR may positively influence the satisfaction of customers.

In this study, the influence of relationship quality on loyalty is controlled due to the fact that literature reviewed shows it has a positive influence on loyalty yet also a large amount of variance [1, 15]. The study made use of a questionnaire which defined CSR among airlines as *"an airline company's responsibility as a social citizen to its stakeholders."* Also, the measurement of CSR in airlines was developed based on established instruments [12] and from literature reviews of media releases, conferences and journals in air transport. In all 12 socially responsible activities for CSR in the aviation industry were used. These were composed of four dimensions, namely safety, environmental protection, social participation, and consumer rights.

The study defined relationship quality as *"a customer's general evaluation of the strength of the relationship between the customer and the focal airline."* Relationship quality was made up of trust and satisfaction, with each having three items for assessment [5, 18]. Furthermore, customer loyalty which is defined as *"a customers' promise of maintaining the relationship with a specific airline based on his/her attitude and behavior."* The study used the theories of Chaudhuri and Holbrook [4] and Mandhachitara and Poolthong [17] to divide customer loyalty into behavioral and attitudinal loyalty with three items that were used to assess behavioral loyalty and three items in attitudinal loyalty. As indicated in Fig. 1, the conceptual framework shows the relationship quality as constructed of trust and satisfaction.
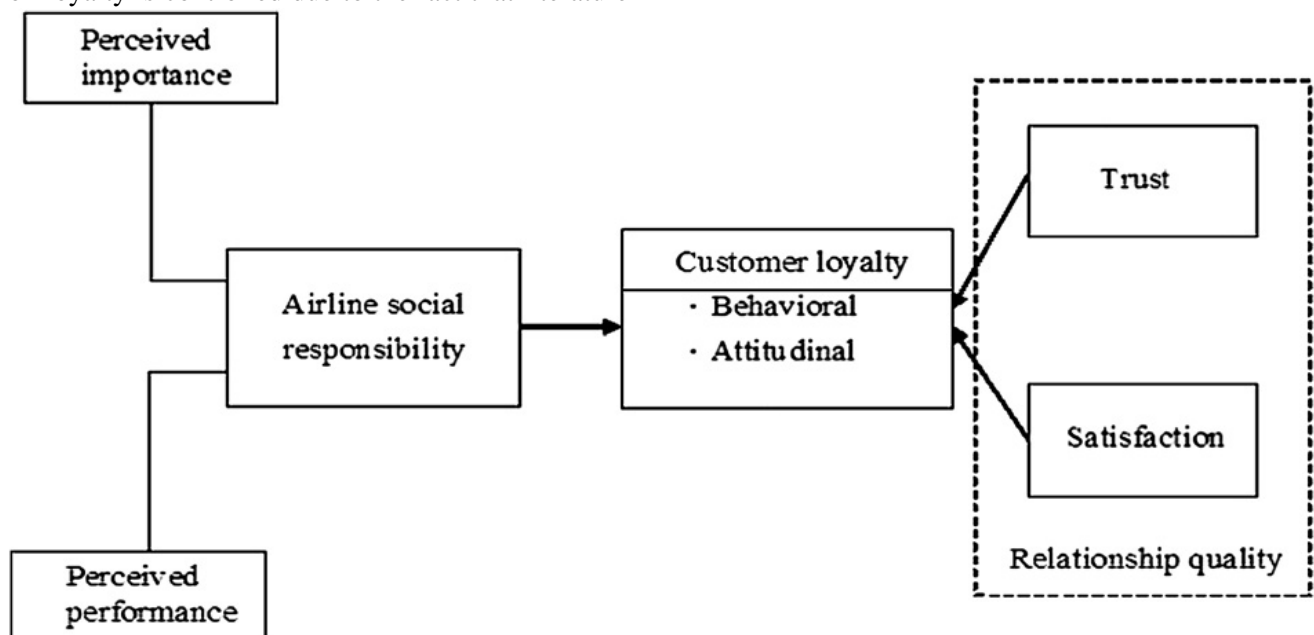

Fig 1: Relationship quality as constructed of trust and satisfaction.
Source: Adapted from Adapted from Fang-Yuan, Yu-Hern and Yi-Hsin (2012)

4 Methodology

The questionnaire that was used in this study was comprised of queries centered on demographic information like sex, education level, age, occupation, monthly income, and experience with airlines. An assessment was done using a five-point rating scale. The sample was mainly selected from individuals with many years of managerial experience in business operations. These managers were professionally competent to know and understand the relevance of CSR in the business strategies of their respective organizations. In order to validate the data collection instrument before hand, a pretest was conducted. The respondents were asked to select which airline in the CEE region they have used in order to answer the questions. In all, 150 questionnaires were distributed and 130 valid responses were returned for data analysis representing a response rate of 86%. Sixty two percent (62%) of the respondents were male and 38% were female. The sample covered respondents from varied professions such as professional service, banking, manufacturing, finance, and the high-tech industry.

4 Result and discussion

The conceptual framework was tested with the use of the hierarchical regression analysis. However, aggregate measures were used to measure airline CSR performance items, such as satisfaction, behavioral loyalty, trust, and attitudinal loyalty by finding the average of all the items in the scales. The study variable reliability was above 0.70. Table 1 provides the results of the data analysis with regards to the perception of respondents on the importance of CSR in the airline market. The perceptions ranged from 1.81 to 2.45. The mean scores for the dimension of airline CSR are as follows: 2.41 (safety), 2.36 (consumer rights), 2.16 (environmental protection), and 2.02 (social participation).

Table 1: Importance and performance of Corporate Social Responsibility in Airlines

Items of Corporate Social Responsibility in Airlines	Importance		Performance	
	Mean	Ranking	Mean	Ranking
An airline should provide a safe and reliable transportation service.	2.45	1	2.20	2
An airline should respect consumers' privacy and protect their personal information	2.40	2	2.25	1
An airline should provide a safe working and business environment to ensure the safety of its employees and customers.	2.35	3	2.13	4
An airline company's commercials or promotion should not deceive or mislead consumers.	2.33	4	2.12	5
An airline should provide a clear and effective complaint program for consumers to solve their problems fairly and immediately.	2.32	5	2.17	3
An airline should volunteer the services of rescuing, transportation, and supply in times of disaster.	2.30	6	2.02	6
An airline should lower the pollution caused by its business activities.	2.23	7	1.09	11
An airline should carry out its business activities in accordance with the environmental regulations and policies stipulated by governments and international covenants.	2.17	8	2.00	7
An airline company should use renewable energy and reduce on-ground energy consumption.	2.06	9	1.92	8
An airline should spend a fixed amount of profit on charity funding.	2.04	10	1.92	8
An airline should establish an independent foundation for charity activities.	1.95	11	1.89	9
An airline should encourage their employees to participate in volunteer services and include them in their personal responsibilities.	1.81	12	1.88	10

Source: Questions adapted from Fang-Yuan, Yu-Hern and Yi-Hsin (2012)

With regards to the CSR performance of airlines, the respondents' ratings were from 1.09 to 2.25. The mean scores for each of the CSR dimension were: 2.18 (consumer rights), 2.17 (safety), 1.97 (environmental protection), and 1.93 (social participation). Furthermore, the results indicated that a significant increase of variance (3.8%) in behavioral loyalty was due to the addition of airlines CSR in the model using satisfaction and trust as control variables. Likewise, a significant increase of variance (7.8%) in behavioral loyalty was a result of the addition of airline CSR in the model. In the two analyses, variance inflation factors for all variables were less than 10. This indicates no concern of multicollinearity.

From the perspective of management, CSR has two significant dimensions. Intrinsically, there is a need for firms (though mostly stimulated by the consumers' demands at the same time) to *do the right thing*. The awareness and the taking of responsibility to protect and improve human (working) rights, sustainable production as well as participating in charitable activities are largely ethical business decisions. Though there is no direct commercial goal in this case, CSR does have an influence on the general population and the attitude of consumers towards firms. From this, it can emphasize that firms stand to gain significant profits from proper alignment of their commercial and social goals and behavior. From this study, it can be said that the engagement in CSR activities is important for firms in the airline industry. Taking into consideration the increase in attention and interest to CSR in the airline industry, there are strong indications for airline firms to continue their engagement in CSR activities. As the study found, if CSR becomes a more important factor for consumers' consciousness in the marketplace, the positioning of the firm through its CSR initiatives may turn into an important competitive advantage.

4 Conclusion

In conclusion, it can be emphasized that CSR has an effect on customer loyalty. Hence, the study identifies areas that organizations can emphasize with regards to the involvement and support for CSR efforts in the airline market across the CEE region. This tends to show that the respondents regard as important for airlines to assume their social obligations to society. However, there is a concession that there is considerable room for improvement in terms of the CSR performance of airlines. It was also found that CSR initiatives can enhance customer loyalty with airline CSR having a marginally significant influence on behavioral and attitudinal loyalty. Additionally, safety was found to be the most important concern of customers. This is followed by consumer rights, environmental protection and social participation, all of which recorded relatively high scores with regards the airlines CSR performance assessments.

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