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INTEGRATION OF CORPORATE SOCIAL RESPONSIBILITY INTO LOYALTY PROGRAMS IN THE TOURISM INDUSTRY

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Abstract: Loyalty programs are a step further than frequency programs and they help to develop advocates of the company in the marketplace. The paper focuses on loyalty programs in the tourism industry and, further, applies corporate social responsibility into loyalty programs. Joint donation, environmental-friendly programs and programs of care for people are proposed as social responsible loyalty programs. They include psychological and emotional bonds between the supplier and its customers on the basis of corporate social responsibility. Managerial implications in this regard are given.

Key words: tourism, loyalty programs, corporate social responsibility, advocates.

INTRODUCTION

The increased competition in tourism has led to development of loyalty programs. Gronroos (1997) and McIlroy and Barnett (2000) argue that there is a shift in marketing philosophy from a focus on transactions to the long-term relationships between customers and supplier which enable to develop loyal customers. Indeed, loyal customers are important assets for the companies. Reichheld and Sasser (1990, 107) found that loyal customers are more profitable than the new ones. Specifically, 5% increase in customer loyalty increases profit for 25% – 85%. But it is not enough that customers are satisfied to become loyal as discussed later.

Morais et al. (2004, 235) argue that there is a lack of effectiveness of many loyalty programs in developing customers' attachment. Furthermore, Fournier (1998) stated that there is no theoretical framework which could explain the process of how to develop customer loyalty. Notwithstanding, we argue that corporate social responsibility which can help people, society and environment, should be included in loyalty programs to develop positive affective attachment. The purpose of the paper is to highlight the importance of social responsibility in loyalty programs and propose loyalty programs for the tourism industry based on corporate social responsibility.

The paper is organized as follows. In the following section, theoretical background of loyalty programs is introduced. Next, corporate social responsibility is applied into loyalty programs. After that implications for social responsible loyalty

programs in the tourism are proposed and explained. At the end concluding remarks are given.

1. BACKGROUND

Although frequent purchasers are usually considered as loyal customers, it is not true. Frequent customers are usually loyal because of financial rewards or incentives. Besides, frequent customers exist also because switching tourism supplier can represent a risk since it is difficult to estimate the quality of the service before it is consumed. On the other hand, consumption of tourism product can generate interpersonal relationships and bonds between tourism supplier and customers and, consequently, lead towards customer loyalty to the supplier.

Jones and Sasser (1995, 92) argue that loyalty is much more present among very satisfied customers than among only satisfied customers. Loyal customers are less sensitive to the price; they usually buy more and are less sensitive to competitors' flattering. Further, research found that 2% of customer retention is equal to a 10% decrease in operating costs of the company (Shoemaker et al., 2007, 93). Creation of loyalty customers represents a challenge for tourism organizations.

All customers are not equally profitable for the company. Adcock et al. (1998) state that there are four stages of relationship between customers and the supplier on the - so called - customer pyramid: meeting, friendship, courtship and marriage. The first stage, meeting, means that new business prospects can develop into friendship, which is characterized with new sales, and then turn into courtship with repeat customers. The last stage is marriage. It means a long-term trust and the link between the supplier and its advocates.

Repeat customers do not necessary exhibit true loyalty. There are true loyal customers and others who are not. In fact, a well known model of customer loyalty developed by Dick and Basu (1994) denotes loyalty as a two dimensional construct in regard to relative attitude and repeat patronage. The typology of the model classifies customers into four levels or groups regarding loyalty. *High loyalty or true loyalty* is represented by customers with strong attachment, high attitudinal and high repeat patronage. *Latent loyalty* means strong attachment to the supplier, but low repeat patronage which can be caused by high price, unsuitable distribution channels, inaccessibility or others. *Spurious loyalty* is characterized by those who have high repeat patronage and low behavioral commitment to the supplier. It can be explained by convenience, habits, lack of competitors or other alternatives, financial reasons and other factors. The last level is called *low-loyalty* represented by low attachment and low repeat patronage. To sum up, true loyal customers are not vulnerable to competitive offers, meanwhile or other groups of customers are.

Moreover, Baloglu (2001) investigated the typology of Dick and Basu model for international tourist destination. The results of the study revealed four loyalty levels or groups for tourist destination: high loyalty, latent loyalty, and low loyalty, which

included two distinct levels (natural switchers and experiential switchers), whereas the spurious loyalty group was not supported in the research.

Additionally, Christopher, Payne and Ballantyne (1997, 22) develop “the ladder of customer loyalty” which consists of prospect, customer, client, supporter and advocate. They state that the aim of relationship marketing is to move new customers up on the ladder to clients who make regular purchases and then progressively into strong supporters and, finally, into advocates. The last ones are deeply committed to the supplier. They also influence other people through positive word of mouth. Similarly, Brooking (1998, 24-25) argues that the relationship between supplier and customer puts the later into different categories. They are: suspects, prospects, champions, customers and evangelists. A suspect is someone who has the outward appearance of being a target for products. According to the profile of the suspect, the company tries to turn them into prospects. Champions are those who work to help the sale because of self-interest or altruism. Customers are persons who actually buy the products, meanwhile evangelists are who actively promote the products. Evangelist in Brooking classification of customer relationship is quite similar to the advocate in the Christopher-Payne-Ballantyne classification.

Customer true loyalty has been introduced in the field of marketing and management gradually. Today we distinguish between *frequency programs* and *loyalty programs*. They are two different programs although frequency programs are many times confounded with loyalty programs. Frequency programs are used to reward frequent customers. Shoemaker et al. (2007, 103) define frequency program as “any program that rewards guests with points, miles, stamps, or “punches” that enable them to redeem such rewards for free or discounted merchandise”. Frequency programs emphasize the benefits for the customers at repeated purchases, but they do not create loyal customers. The first frequency program was introduced in the beginning of the 1980 by American Airlines. Afterward it was further developed and adapted by other airlines. The most common frequency programs nowadays are present in many retail trade companies where customers are rewarded with different points, bonuses etc. There are many hotels and hotel chains which have frequency programs to collect points for benefits such as free stays, additional service. For instance, Hilton Hotels has a HHonors frequency program that is active at Hilton brands; meanwhile Marriott practices frequency reward through Marriott Rewards. Many frequency programs of hotel chains are shared with frequency programs of other complement suppliers (for example car rentals, golf courses, entertainment parks, airlines) or even not complement suppliers (for example cruises). Although suppliers call them loyalty programs, they are in fact frequency programs.

Furthermore, membership of customers in different clubs of tourism supplier enables to adapt tourism products to their customers and their wants and needs (such as, room accessories, food in the hotel restaurant, his or her habits and wants) with the help of data system. This is a step further from frequency programs to create attachment to customers. But there are several reasons why satisfied customers may not become loyal ones (Kotler et al., 2006, 396):

- some travellers do not return to the destination,
- some customers like to experience different suppliers when they return to a destination,
- some customers are price sensitive and always look for the best price based solution, and,
- satisfaction ratings of some customers tend to be inflated; so they have to be very satisfied to repeat the purchase.

Loyal customers have a special relationship or interaction with the supplier which is developed by loyalty programs. Development of such relationships is referred in marketing literature as *relationship marketing* or also *loyalty marketing*. Shoemaker et al. (2007, 91) define loyalty marketing as “an ongoing process of identifying and creating new value for individual customers for mutual value benefits and then sharing the benefits from this over a lifetime of association”. Kotler et al. (2007, 397) list the characteristics of relationship marketing. They are:

- orientation to customer retention,
- continual customer contact,
- focus on customer value,
- long-term horizon,
- high customer service emphasis,
- high commitment to meeting customer expectations, and
- quality concerns all staff members.

However, Morgan and Hunt (1994) argue that trust is the key variable to development of long-term customer relationship. Development of closer, unique and lasting relationship with customers is called customer relationship management which combines marketing, business strategy and information technology (Kotler et al., 2006, 63).

2. APPLYING CORPORATE SOCIAL RESPONSIBILITY INTO LOYALTY PROGRAMS

Today customers are vulnerable to the problems and crises they are facing to, such as crisis in values and climate change, huge differences among people and also economic crisis (and poverty) in developed countries. At the same time, customers are also more aware of ethical consumption. These are issues for tourism organizations to play a positive role in society by introducing corporate social responsibility into loyalty programs which should rely on solutions to the mentioned problems. Corporate social responsibility means that organizations take on responsibility towards others in society, not merely on their shareholders and customers (Holloway, 2004, 363). The aim of corporate social responsibility can vary from improving the quality of life of people in the local community to solving environmental or socio-cultural problems locally or globally. Hence, it represents a commitment to ethical behavior. Corporate social responsibility is usually seen by (potential) consumers as an action of the corporation in behalf of society and environment.

A well-designed and implemented loyalty program that includes social responsibility can create trust as well as strong and lasting relationships between the supplier and customers who, consequently, become advocates of the supplier. Psychological or emotional commitment of customers and positive affective attachment of consumers are developed and achieved by successful loyalty programs.

Tourism products of social responsible tourism organizations can represent a status symbol, especially in the high-end market. Moreover, customers can actively participate in social responsible behavior when they buy or consume tourism products.

The main concern of tourism suppliers should be in finding ways to develop and maintain customers' commitment which, in turn, creates also frequent or repeated purchases. Literature on loyalty programs in tourism has been increasing in recent years (for instance Middleton, 2001; Kotler et al., 2006; Shoemaker et al., 2007). Its review shows that while explanation of frequency programs is quite vast and explicit, loyalty programs are not studied or explained in the literature in exact and accurate way. Notwithstanding, the study of influence of corporate social responsibility on loyalty programs was already undertaken (for instance, Salmones et al., 2005), but - to the author's knowledge - it has not been yet applied to the tourism industry. We try to fill this lack. In the following chapter, some loyalty programs based on corporate social responsibility for the tourism industry are proposed.

3. IMPLICATIONS FOR SOCIAL RESPONSIBLE LOYALTY PROGRAMS IN TOURISM

The growing concern for corporate social responsibility may take different forms in the content of loyalty programs in the tourism industry. In fact, qualitative research conducted on literature review and the review of practises of tourism organizations, helped us to classify three main forms of loyalty programs that can be based on social responsible behaviour in the field of tourism.

Firstly, donation is a widely accepted manner of being social responsible. Hotels, tour operators, travel agencies and even restaurants or theme parks can develop so called joint donation with customers. It is a type of collaboration in donation process between tourism organization and its customers that enables customers to feel that their purchase is also philanthropic. Joint donation is shared with customers if the seller donates a part (for example, a percentage) of the amount paid for the tourism product. The process and the characteristics of joint donation should be appropriately communicated to potential customers and transparent.

Continuous sharing and donating is the way to develop loyalty programs where customers feel emotional bonds with their own suppliers. Tourism organizations should be creative and innovative in forming and shaping new donation programs. In fact, competition among such programs can arise in the tourism industry. To illustrate, a model of joint donation model can allow customers that they choose whom to donate.

Secondly, many companies that sell tourism products are environmental unfriendly. Tribe (2005, 358-360) classifies negative impacts of tourism on environment into local environmental impacts and global environmental impacts. Local environmental impacts are impacts on a) natural resources, such as, water, forests, fossil fuels, coastal areas, b) pollution, such as noise pollution, sewage, littering, visual pollution, and c) physical impacts on coral reefs, rain forests etc. Among global environmental impacts of tourism, Tribe states: a) loss of biological diversity, b) depletion of the ozone layer and c) climate change. For instance, airline industry is one of the major global polluters in last decades. There is estimation that air traffic contributes about 2.5 % of the total world production of carbon dioxide (Tribe, 2007, 360). Several studies (for instance Goessling, 2002; Becken, 2005; Goessling et al., 2005; Nepal, 2008) found the contribution of tourism to greenhouse gases and global climate change.

Generally speaking, many tourism suppliers can improve their image and brand by being environmentally responsible. They can remove their negative image or improve neutral image about social responsibility into a positive one by helping to improve local and global environment. Tourism organizations might invest in environmentally-friendly energy systems that can replace fossil fuels or be included in recycling. Furthermore, transport organizations and others can use energy-saving and environmentally-friendly vehicles. Many tourism organizations can plant trees to improve the environment. Tree planting represents an active commitment of tourism organizations to replace environmental damage that occurs in business activities in satisfying needs and wants of customers. The volume of tree planting of individual tourism organization can depend on sale volume and can, hopefully, be higher than damage caused to the environment.

Thirdly, loyalty programs that are social responsible might include care for people and environment. Today in tourism we find different eco-labels that help to make better choices to consumers. In fact, obtainment of the eco-label exhibits the commitment of tourism suppliers towards sustainable development and environment improvements. There are several eco-labels in tourism, such as The Green Key and The EU Flower for tourist accommodation and The Blue Flag for marinas and beaches. Tourism Eco labels create image of caring and friendly tourism organizations and, at the same time, inform tourists about sustainable orientation of tourism product and promote them. Suppliers can also develop guidelines for social responsible development.

CONCLUDING REMARKS

The paper deals with the synergy of corporate social responsibility and loyalty programs in tourism and, as such, emphasizes the need of tourism organizations for implementation of social responsible loyalty programs in order to get more advocates in the marketplace. Besides, the paper reinforces the appropriateness of looking at loyalty programs through the prism of corporate social responsibility. Customers are vulnerable to environmental and social problems. At the same time, it is a matter of fact, that tourism is recognized as having negative impacts on society and environment

locally and globally. Care of tourism organizations for these problems and their active role in the society have a positive impact on customers and their commitment to the supplier. This is the reason to integrate the strategy and the actions of social responsibility into loyalty programs which should be relevant and consistent in stimulating trust in tourism suppliers. Indeed, the success of loyalty programs depends on their long-term adoption to current needs and problems in ensuring social responsibility.

Proposed loyalty programs can develop true loyalty and advocates of tourism suppliers if used appropriately. They include joint donation, environmental-friendly programs and care for people and environment and, as such, represent a step away from classical frequent programs broadly used in tourism. The strength of proposed loyalty programs is that they can be used complementary.

Lastly, the paper provides a basis for discussion and development of social responsible loyalty programs. Future research can focus on empirical research about how corporate social responsibility is actually integrated in loyalty programs in the tourism industry and, furthermore, exploring the benefits of corporate social responsibility as a tool of loyalty marketing.

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