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Synergy of corporate social responsibility and service quality for airlines: The moderating role of carrier type

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ABSTRACT

The potential exists for airlines' confronting challenges when providing high quality service while simultaneously adopting corporate social responsibility (CSR) in a cost efficient manner. This study explores synergistic effects of CSR and service quality on firms' performance in the U.S. airline industry. In particular, the examination involves synergistic effects according to types of air-carriers: low-cost carriers (LCCs) and full-service carriers (FSCs). Findings reveal: 1) a positive synergistic effect of service quality and CSR for FSCs, and 2) a negative synergistic effect of service quality and CSR for LCCs. These findings suggest that although improving service quality is apparently crucial, the improvement does not always increase firm performance when integrated with CSR activities. This study provides important implications for airline firms, suggesting efforts toward development and implementation of a strategy that can optimize competitive advantages.

1. Introduction

The airline industry has changed radically over the past few decades. Since the Airline Deregulation Act in 1978, airfares have dropped significantly mainly as a result of dramatic increase in air travel (Agusdinata and De Klein, 2002). As air travel increased, more and more travelers perceive flying as a simple option for transportation rather than a focal part of the trip. This implies that air travelers might become more price-sensitive and less concerned with other factors such as service quality. According to Wittman (2014), a majority of air travelers use price for purchasing decisions. The recent rapid growth of low-cost carriers (LCCs) in the market shows that achieving competitive prices and cost efficiencies are critical to an airline's success.

A leading LCC, Southwest Airlines, has consistently shown strong financial performance by placing an emphasis on low-cost operations. Efficient allocation of resources is the cornerstone of their low-cost structure. For example, Southwest greatly reduced operating costs by creating a fleet using a single type airplane, accessing inexpensive secondary airports, providing limited services for passengers, concentrating on short–haul, point-to-point routes, and limiting marketing and maintenance expenses (Smith and Pearce, 2006; Ito and Lee, 2003). By effectively allocating and utilizing scarce resources, Southwest simplifies operations, scheduling, and maintenance, allowing high productivity and profitability.

While airlines have made significant efforts to minimize costs, full-service carriers (FSCs) differentiate themselves from LCCs by providing high-quality products and services to target higher value customers. Research shows that although airline passengers perceive a difference between LCCs and FSCs in terms of quality of services, performance and service quality do not necessarily correlate in the airline industry (Bowen and Headley, 2013). Providing and delivering broader ranges of quality services can be costly and deteriorates cost effectiveness if not executed carefully. In addition, airline service quality is context-based and measured by passengers' perceptions of expected and valuable services (Liou and Tzeng, 2007). Studies showed that LCCs' passengers tend to have lower expectations for quality of service due to lower airfares paid (Bhadra, 2009; Wittman, 2014). For example, passengers for LCCs might only consider basic service qualities such as reliability and safety if the purpose of air travel is simply to transport from one place to another. Understanding passengers' perceptions of services could, therefore, contribute to establishing an efficient cost

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structure for better operations that focus on delivering services tailored to targeted passengers' needs.

Recently, airlines have begun to attend closely to managing corporate social responsibility (CSR), which allows firms to seek sustainable growth by understanding social and environmental expectations through communication with various stakeholders and integrating those expectations in strategic planning (Murphy and Schlegelmilch, 2013). Therefore, effective CSR management could create a competitive advantage within the airline industry. For instance, adopting environmental initiatives, such as fuel saving and recycling, not only contributes to airlines' maintaining low fares but also produces positive environmental impacts; United Airlines has collaborated with AltAir Fuels since 2009 and has agreed to buy 15 million gallons of lower-carbon, renewable jet fuel over a three-year period, and reported that they reduced their fuel consumptions by 85 million gallons in 2013. Another example would be airlines' efforts to make improvements on safety issues as a part of their CSR strategy along with their involvement in community related matters such as charitable giving and helping kids in needs; Southwest Airlines reported that they gave out $11.6 million as charitable giving and donated 45,000 volunteering hours to various communities by their employees in 2009 (Southwest Airlines Co., 2010). Using a gained positive reputation, airlines can benefit from increased demand from environmentally conscious passengers. Researchers maintain that such a strategy is a win–win situation for the benefit of firms, environment, and consumers (Knight, 1995; Chan and Wong, 2006). However, Porter and Kramer (2011) argued that such CSR management can lead to decreased profitability. Maintaining compliance with environmental laws and regulations, and developing and improving effective environmental managerial systems imply significant capital expenditures, perhaps exceeding benefits (Jaffe et al., 1995).

Given that airlines may face challenges for providing high quality service while simultaneously adopting a CSR approach in a cost efficient manner, this study explores synergistic effects of CSR and service quality on firms' performance in the U.S. airline industry. In particular, the examination considers the synergistic effects according to carrier types, LCCs and FSCs. Findings indicate: 1) a positive synergistic effect of service quality and CSR for FSCs, and 2) a negative synergistic effect of service quality and CSR for LCCs. These findings suggest that although improving service quality may be crucial, improvements do not always increase firms' performance from integrated CSR activities. This study provides important implications which encourage airline firms to develop and implement strategies that optimize competitive advantages.

2. Literature review

2.1. Airline quality rating (AQR) and financial performance

A vast catalog of the literature suggests a positive link between service quality and financial performance in various contexts (Duncan and Elliott, 2002; Vickery et al., 2003; Lai and Cheng, 2005; Al-Hawari and Ward, 2006; Gupta and Zeithaml, 2006; Schneider et al., 2009; Yee et al., 2010; Hancock et al., 2013; Sun and Kim, 2013; Yayla-Kullu and Tansitpong, 2013). Zeithaml (2000) argued that service quality directly affects the profitability of organizations. For example, quality management leads to better financial performance because customers satisfied with high quality service, continue, through repeat patronage, to contribute to revenue and profit (Chong and Rundus, 2004). In the airline industry, quality service is an accepted key factor for attracting and retaining customers (Gursoy et al., 2005). Parast and Fini (2010) maintained that satisfied and dedicated employees deliver high-quality customer service that encourages passengers to be loyal customers. Researchers have also found evidence that poor service quality leads airlines to loss of sales and profits by expending valuable resources on handling customers' complaints (Behn and Riley, 1999; Rhoades and Waguespack, 2008).

However, the challenge for airlines is establishing a reliable measure for service quality, since attributes of service quality often depend on an individual's perception (Rhoades and Waguespack, 2008). In addition, airlines' service quality is difficult to measure because of the unique characteristics of operations. That is, airlines do not provide physical products but intangible experiences that can vary among customers' perceptions (Gursoy et al., 2005). Several scholars developed various measures to evaluate service quality (Babbar and Koufteros, 2008; Tiernan et al., 2008; Parast and Fini, 2010; Wen and Lai, 2010).

Among them, the airline quality rating (AQR), introduced in 1991, is a unique instrument to evaluate airlines' service quality. AQR is calculated by using a weighted-average of multiple elements that are relevant to consumer concerns about airline quality. Data for these elements reflect performance aspects of airlines such as on-time arrival, mishandled baggage, involuntary denied boarding, and 12 customers complain areas. However, AQR is often criticized for its simplicity. That is, it cannot reflect total service quality because it only covers basic services. Overall quality of airlines should include all aspects of airline operations including amenities, in-flight meal quality, seat comfort, check-in procedure, the availability of schedule/flight information, on-time performance, flight attendants, and frequent flier programs (Rhoades and Waguespack, 2004). Several scholars argue that measuring airline service quality is challenging as it is perceived to be multi-dimensional (Gursoy et al., 2005; Parast and Fini, 2010). In addition, AQR can be misleading as some elements can differ from service provider to service provider. For example, JetBlue and Virgin America do not practice overbooking, allowing an advantage in denied boarding element. Despite its criticism, however, the AQR represents an objective method for assessing airline quality (Bowen et al., 1991; Headley and Bowen, 1997).

While the importance of service quality for firms' performance has had substantial debate in the literature (Rhoades and Waguespack, 2000; Parast and Fini, 2010), studies showed that airline passengers evaluate service quality based on all interactions with airlines during delivery of services (Brown and Swartz, 1989; Danaher and Mattsson, 1998). This criterion suggests that airlines need to develop a more comprehensive understanding of the characteristics of targeted customers to improve performance. For example, some airlines create differentiation from competitors by not only providing unique service attributes but also establishing a favorable image among a particular segment of customers (Gursoy et al., 2005). Therefore, understanding the unique attributes of each passenger and responding with efficient engagement is critical for creating and maintaining a profitable customer base (Rhoades and Waguespack, 2004; Liou and Tzeng, 2007).

2.2. Corporate social responsibility (CSR) and firm performance

Corporate social responsibility (CSR) turned corporate attention to considerations beyond the narrow economic perspective of maximizing profit and encouraged firms to increase shareholder wealth by meeting the objectives and values of the larger embedded society (Phillips et al., 2003; Hawkins, 2006; Aguilera et al., 2007; McWilliams and Siegel, 2010; Murphy and Schlegelmilch, 2013; Servaes and Tomayo, 2013). Among other concepts, adopting a stakeholders' approach explains CSR (Carroll, 1991; Mitchell et al., 1997; McWilliams and Siegel, 2001; Garria and Mele, 2004; Peloza, 2006; Barnett, 2007; Jamali, 2008). From this perspective, "organizations are expected to manage responsibly an