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Reaction of customers against loyalty programs: Case study of Mahan Airline

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Nowadays so many researches about the effect of loyalty programs on customer satisfaction and loyalty, however these kinds of programs have another aspect and that is the customers' negative response and reaction against implementation of such programs. Since customer’s reaction may reduce their loyalty against the company, so in order to achieve the goals of the organization, which one of them is to keep the customer, customer response consideration would be justified. Therefore in this research, high trips customers' reaction of Mahan Airline versus loyalty programs applied by the company was studied in three dimensions; social-mental relationships, financial and contractual relations. The aim of this study which has considered the frequent flyers of Mahan Airline as the statistical community is of a practical kind. The main tool used in this study was questionnaires and the information about literature and history has been collected through Internet websites and libraries. The relationship among variables has been studied through correlation test. Based on the research model, it can be asserted that there is a direct relationship between independent and dependent variables.

Key words: Relational marketing, loyalty programs, frequent flyers of Mahan Airline, reaction.

INTRODUCTION

Nowadays relational marketing is considered as one of the most important branches of marketing and one of the main principles in management. In fact relational marketing and loyalty programs have been designed as organizational tools and they are kind of a marketing strategy that their core objective is to create loyalty in customers by offering a series of services, discounts and more generally speaking, to communicate with customers, thereby simultaneously prepare the essential arrangements for increasing the loyalty and benefits of long-term communication. Since it has been estimated that to attract a new customer is 3 to 5 times more expensive than maintaining a current customer, (Orr, 1995; Fierman, 1994; O’Brien and Jones, 1995) thus creating customer loyalty is basically one of the most important organizational objective and for this reason, in customer relationship management (CRM) and encouragement to buy; this issue has been taken into consideration theoretically and practically. It should be kept in mind that beside the organizational benefits of creating customer loyalty and applying relational marketing, there are also some restrictions (Grayson and Amber, 1999) and even with strong relational marketing tools like various loyalty programs, assessing the related issues due to its high sensitivity is more carefully done. Nowadays several researches have been conducted regarding effect evaluation of loyalty programs on the customer satisfaction and loyalty. Due to the importance of this issue, completion and conclusion of such a perspective is essential and its completion is subject to the study of negative effect of loyalty programs and
customer reaction against such programs. It seems that beside the refusal of some certain customers to be dependent on a company, factors such as sense of privacy and discrimination or unequal treatment; raise the customer’s reaction and concerns (Evans, 1999; Hansen, 2000). This means that relational marketing may not only show its negative impact but also in some cases, it raises the opposition against the intended objectives. While such a problem has been considered as theory, the empirical findings available on this issue are very limited. Some evidences suggest a widespread negative reaction from customers (Fournier et al., 1998). Some others qualitative research have covered these findings (O’Malley and Prothero, 2004; Boulaire, 2003). It should be noted that the qualitative studies conducted in this area are very rare (Stauss et al., 2005). For example, through an interview with members of the Railroad Reward System (a system executing loyalty programs) a variety of reasons and factors leading to failures and frustration among members were identified. But still evaluating the importance of this issue for suppliers is difficult. For the better understanding of the consequences of relational marketing, we studied the threats imposed by the loyalty programs to the customers’ independence. In this research, loyalty programs of Mahan airline has been explained in three dimensions: social-mental relationships, financial relationships and contractual relationships. The effects of these relationships can be introduced as factors causing reactions which indicate the superficial integration of social science and the reaction theory. On the other hand some factors named as personal characteristics (the importance of customer independency in purchase behavior, reaction characteristics in people) are considered as the effective factors on people’s situational reaction (Hansen, 2000; Sheth and Parvatiyar, 1995). Thus, based on tactical relational marketing principles and reaction theory, a model demonstrating different determining factors and effects of the customers’ reaction against the loyalty programs has been designed in details and tested. Based on such a view, this study is trying to find the answers to the following questions:

What is the customer reaction against loyalty programs?
What is the impact of customer response on loyalty programs?

MATERIALS AND METHODS

Theoretical framework and research background

There are different tools to retain customers and manage this process. Many of these tools are used within the customer relationship frame and paradigm. There are different classifications for these tools and various methods and approaches are suggested (Diller, 2000; Hennig-Thurau and Hansen, 2000; Odekerken-Schro et al., 2003). Barry and Evanas (2008) have proposed three approaches to develop strong bond with customers and they are referred as loyalty programs in this study. The first approach is about increasing the financial benefits of the customers and it is accomplished by company’s financial relations (economic bonding potentials) in this study. Club members of frequent flyers that gain defined reward points from Mahan Airline having the following benefits: extra load free of charge, free use of receptions halls in Imam Khomeini International Airport (IKIA) and free airport transfer. Barry and Evanas (2008) believe that in addition to financial benefits, social benefits should be provided as well and it is referred as the second approach of social-mental relationships (Socio-Psychology Bonding Potential). In this type of loyalty program; individual needs and demands of customers are identified by the company and offer their services for every individual respectively and with regard to the customers’ prioritization (Abdulvand and Nikumaram, 2007). In order to implement such programs, Mahan Airline is providing the members who have gained the necessary points; the priority in booking tickets, priority in boarding and accepting unconfirmed tickets in national and international flights. Finally the third approach suggests that contractual relations (contractual bonding potential) are defined as the commitment of individuals in cases like their participation and minimum constant purchases. The individual commitment to the company can also be interpreted as the structural or contractual relationship. As noted before, loyalty programs are a combination of these relationships. For example, a company contacts its customer and offers some discounts. This is a combination of economic (financial) relations and social - psychological relationships. If these benefits are for those customers known by the company (Frequent flyers), the contractual relationship (structural) has also been added. For this purpose Mahan Airline email the news and updated information and send brochures to those members who are identified as frequent flyers.

Reaction theory as a framework for analysis

Theory of psychological reactions was presented by Brehm in 1966. He believes that people’s experience respond and reacts when their freedom is ignored or threatened. Reaction rate is specified according to the importance of the influenced behavior of individuals and the amount of individual freedom which is ignored or threatened (Brehm, 1966). Brehm was sure about various effects of reaction and later he classified them into two distinct groups (Brehm, 1972): psychological effects that include cognitive and adjudicative changes and behavioral effects which can be observed by others (Figure 1). Cognitive and adjudicative changes can be in the form of having alternatives and preferring other companies, while behavioral effects can be in the form of opposition and aggression etc. Since the reaction theory is associated with opposition, the consequences of reaction have been referred as "boomerang effects" (Clee and Wicklund, 1980) which strength point and weak point (reaction theory) is its extensive utilization. Thus different conditions, such as ineffective exhortative efforts (Brehm and Sensoz, 1996), physical reactions against the physical barriers (Brehm and Weintrab, 1977) or tendency towards elusive goals (Wright et al., 1992) will be explainable by effects of reaction. However definition of reaction, its causes and effects are so general (Wiswede, 1979). In 1966, Brehm acknowledged that in some situations, the reaction will not happen; for instance when the freedom restriction is legitimated or justified socially. In this case, reaction rarely occurs in people.
Various applications of reactions theory can be observed in customers market (Clee and Wicklund, 1980). The most important subject of study was the reaction effects against promotion. This research was first conducted in the field of personal sales and later in the field of online promotion (Brehm, 1966; Wicklund et al., 1970; Edwards et al., 2002). In all these studies, no direct scale was used for reaction and only the influences of reaction were assessed. Recent researches in the field of reaction deal with more permanent mode of reaction and that is the trait reactance in people which has begun with research of Merz in 1983. Various authors have developed and evaluated different measurement scales addressed as personality characteristics (Herzberg, 2002; Hong and Faedd, 1996; Donnell et al., 2001). Some other tended towards questions about demographic and related psychological information (Buboltz et al., 2003; Dawd et al., 1994; Hellman and McMillin, 1997). The results showed that the reaction rate decreases as people's age increased moreover reactive people are less interested to have influence, they don't have much patient, they are more dominant and have more confidence. However, the researches bonding people's reaction to the situational reaction are very new.

### Research method

The applied method of research was used while descriptive survey was used in terms of data collection. Libraries and academic web sites are explored for data gathering. To investigate the effects of loyalty programs on customer reactions, the following boundaries have been determined:

A) The subject territory of research: marketing and relational marketing  
B) The location territory of research: frequent flyers of Mahan Airline.  
C) The time territory of research: data and information collected from May 2010 to July 2010.

Statistical community in this study is frequent flyers of Mahan Airline, which according to the available list, are 4000 members. The statistical sample of this study was 199 estimation samples that were selected by a simple random sampling method. To determine the sample size, "Cochrane formula" is used and the adequacy of these numbers of samples is confirmed by Lisrel software to generalize the results. The main tool in gathering data in this study was a questionnaire and its validity and reliability has been assessed. Its validity was approved by several marketing professors and experts. For assessing the validity of questions, credibility factor is used which is a form of construct validity that will be acquired by factor analysis. To check the reliability of the questionnaire, Cronbach's alpha coefficient was used and this coefficient was equal to 0.78 for all questions which approves the questionnaire's reliability. Descriptive statistics and hypothesis testing technique are used for result analysis. Data obtained by the structural equations have been analyzed for careful review of causal nexus. Covariance structure analysis or causal modeling or structural equation could be one of the main methods of analyzing complicated data structures. Inferential and descriptive statistics was used in analysis of the questionnaire. Descriptive statistics include frequency tables, mean and standard deviation; exploratory factor analysis (EFA) and structural equation models using confirmatory factor analysis (CFA) and path analysis were used in inferential level. Software used for data analysis is SPSS software package version 18 and LISREL software package version 8.54.

The content model (Figure 2) displays variables and their relations among them which have been examined in this study. External factors that cause reactions in people to loyalty programs are the loyalty programs themselves. As it is mentioned before, these programs are composed of three sectors: economic relations, social- psychological relations and structural (contractual) relations. Obviously structural relationship is the direct and effective way to limit the sense of replacement in people. In this study, assumptions are within the scientific frameworks that will be discussed later. Personality characteristics of customers affect the reaction. According to Brehm's remarks the importance of behavior freedom which is threatened is actually the personal determining factor in reaction, which here it is addressed as the importance of purchase behavior. Brehm mentions about "Unique Instrumental Value" of some individual behavior (Brehm, 1966: 4) for example, when customers find a similar replacement for a particular category of goods or services which satisfy their needs, thus the aforementioned value will be relatively reduced. For other customers, purchasing that particular goods or service may have a high importance, so the aforementioned statements lead to the following hypothesis:

**H₁**: Independence of purchase behavior has a direct impact on

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![Figure 1. Framework of reaction theory (Brehm, 1972).](image-url)
situational reaction.

While the importance of independency of purchase behavior is of certain types of goods or services, or special circumstances; there is a general field in all situations. The concept of reaction characteristics in people was previously referred as well. So it is assumed that:

\( H_2 \): Reaction characteristics of people have a direct impact on situational reaction.

Bendapudi and Berry (1997), with emphasis and attention on the factors that cause less desirable consequences in consumer behavior, differentiate between keeping customers based on limits and keeping the client based on commitment. It means probably the limiting actions such as contractual relations, cause reactions in people. According to the research done in the field of reaction and based on Kivetz findings in 2005, the economic benefits in the form of financial stimulus may cause reaction, while this does not limit the customers to the size of the contractual relations. Financial rewards that should be gathered in a long period of time (collection rates for awards) can be replaced as a barrier to prevent replacement which creates reaction as well (Gustafson et al., 2004). Similarly, applying psychological-social elements can also be the reaction impulses. If the customers think that social-psychological relation and its tools are only for economic profitability of company then in this case the reaction can appear too (Hansen, 2000).

Therefore, based on the aforementioned statements, the following assumptions were presented:

\( H_3 \): Economic-financial relations have direct impact on situational reaction.

\( H_4 \): Social-psychological relation has direct impact on situational reaction.

\( H_5 \): Structural relations have direct impact on situational reaction.

As mentioned before, gaining back the freedom is not the only factor in encouraging the customer reaction. Loyalty programs combine various elements which provide desirability for members as it is their initial duty to answer and keep customers’ desirability. While several of the authors speak about the relative benefits of these programs (Hening-Thurau et al., 2000) in this study with the same view expressed by Yi and Jeon (2003), consider the overall judgment of desirability in potentials available in these relationships. Social-psychological relations and economic (financial) relations create desirability in customers because of generating financial advantage and dealing with people as members of a forum. On the opposite, the structural relations (contractual) are very unlikely able to create desirability in customers, as described before, these relations actually have limiting applications. So based on the aforementioned point the following assumptions are considered:

\( H_6 \): Economic financial relation has direct impact on perceived desirability of customers.
Table 1. KMO and Bartlett’s test.

<table>
<thead>
<tr>
<th></th>
<th>KMO and Bartlett’s test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bartlett’s test of sphericity</td>
<td>0.699</td>
</tr>
<tr>
<td>Kaiser-Meyer-Olkin measure of sampling adequacy</td>
<td>215.229</td>
</tr>
<tr>
<td>Df</td>
<td>15</td>
</tr>
<tr>
<td>Sig.</td>
<td>0.000</td>
</tr>
</tbody>
</table>

H₉: Social-psychological relationship has direct impact on perceived desirability by customers.

While reaction theory predicts different impacts, these effects should be identified according to the available framework. Since participation in loyalty programs is always voluntary, the simplest consequences resulting from the reaction against loyalty programs is disinclination to participate in such programs. This solution can be the most immediate way to gain back the freedom people are seeking to obtain. (Brehm, 1981)

H₁₀: Situational reaction has a direct impact on tendency towards continued participation in the programs.

Another important factor in customer behavior is relation and word of mouth advertising that receive special attention in relational marketing. In 2004 Stahl has addressed the negative word of mouth advertising as a possible result of reaction against the loyalty program. So it is assumed that:

H₁₁: Situational reaction has a direct impact on negative word of mouth advertisement.

Disregarding the impact of loyalty programs, behavioral tendencies of members towards the company or organization providing goods or services, will change (Wu and Petroshius, 1987). According to the related marketing purposes, the companies are focused on willingness to repurchase. Customers may tend to purchase less in order to demonstrate their independency and support these behaviors. Based on the aforementioned argument it is assumed that:

H₁₂: Perceived desirability of customers has a direct impact on reaction.

RESULTS

For further improvement of questionnaire, the results of confirmatory factor analysis (principal component analysis) were evaluated. According to the results obtained from the table, the number of two buoys in total questionnaires has a little factor load, so these two buoys have been eliminated in the analysis. To review the adequacy of statistical samples, the Kaiser-Meyer-Olkin (KMO) test is used. The results of this test are shown in the following tables.

Diagnosis results of tests show consistency and adequacy of samples for confirmatory factor analysis. The value of KMO test and the amount of Bartlett statistics show that existing data are suitable for factor analysis because the KMO value is higher than 0.5 and the Bartlett statistics is in a meaningful percentage. For structures measurement test with markers (buoys), the model of measurement has been used and the results approve the structures measurement integrity (Table 1).

By comparing the absolute t value to standard value, all the hypotheses will get approved and it means there is a direct relation between dependent variables and independent variables (Table 2). This study shows that factors such as customer personal characteristic and loyalty programs are influential factors in situational reactions of people; the results of data analysis prove the direct impact of each component of customer personal characteristic, while the value of t obtained for each of these components is a positive value; so it can be claimed more clearly that the impact of each component is a positive impact and it can be interpreted that with increase of load factor of variable components of customer personal characteristic and loyalty programs, the situational reaction variable, as a stimulus for some consequences, is increasing. On the other hand, other factors such as the disinclination of passengers in the participation in loyalty programs, negative word of mouth advertisement and the disinclination of passengers to buy from Mahan Airline are considered as a consequence of situational reaction against loyalty programs. In this study, the impact of situational reaction has been referred as a stimulator for the above mentioned consequences. Based on results and the positive t value of variables for disinclination to participate and disinclination to buy, it can be declared that the increase in driving factors of situational reaction is associated with two outcomes, while negative t shows a negative impact on negative word of mouth advertising; indicating that increase in driving factors of situational reaction does not lead to negative word of mouth advertising. Also in the
Table 2. The results of variables analysis.

<table>
<thead>
<tr>
<th>From variable</th>
<th>To variable</th>
<th>Path coefficient</th>
<th>T value</th>
<th>Standard error</th>
<th>Meaningfulness level</th>
</tr>
</thead>
<tbody>
<tr>
<td>The importance of customer independency in purchase behavior</td>
<td>Situational reaction</td>
<td>0.16</td>
<td>2.83</td>
<td>0.05</td>
<td>0.01</td>
</tr>
<tr>
<td>Reaction characteristics in people</td>
<td>Situational reaction</td>
<td>0.16</td>
<td>2.63</td>
<td>0.06</td>
<td>0.01</td>
</tr>
<tr>
<td>Economic-Financial relations</td>
<td>Situational reaction</td>
<td>0.40</td>
<td>5.17</td>
<td>0.07</td>
<td>0.01</td>
</tr>
<tr>
<td>Psychological relations</td>
<td>Situational reaction</td>
<td>0.12</td>
<td>2.11</td>
<td>0.05</td>
<td>0.01</td>
</tr>
<tr>
<td>Structural relations</td>
<td>Situational reaction</td>
<td>0.15</td>
<td>2.03</td>
<td>0.07</td>
<td>0.01</td>
</tr>
<tr>
<td>Economic-Financial relations</td>
<td>Perceived desirability</td>
<td>0.20</td>
<td>3.54</td>
<td>0.05</td>
<td>0.01</td>
</tr>
<tr>
<td>Social-Psychological relations</td>
<td>Perceived desirability</td>
<td>0.17</td>
<td>3.51</td>
<td>0.04</td>
<td>0.01</td>
</tr>
<tr>
<td>Perceived desirability by customers</td>
<td>Situational reaction</td>
<td>0.42</td>
<td>5.16</td>
<td>0.08</td>
<td>0.01</td>
</tr>
<tr>
<td>Situational reaction</td>
<td>Tendency towards continuing participation in the programs</td>
<td>0.13</td>
<td>2.00</td>
<td>0.06</td>
<td>0.01</td>
</tr>
<tr>
<td>Situational reaction</td>
<td>Negative word of mouth advertising</td>
<td>-0.84</td>
<td>-7.34</td>
<td>0.11</td>
<td>0.01</td>
</tr>
<tr>
<td>Situational reaction</td>
<td>Tendency towards repurchasing</td>
<td>0.80</td>
<td>7.66</td>
<td>0.10</td>
<td>0.01</td>
</tr>
</tbody>
</table>

Discussion about the impact of economic (financial) relations and social-psychological relations on perceived desirability; the positive impact of these two variables on desirability can be claimed. On the other hand, the positive t value of perceived desirability on situational reaction shows a positive and direct impact; so it can be realized that with increase of passengers' perceived desirability from components of loyalty programs (economic relations and social-psychological relations), the situational reaction stimulus increases as well, which can be justified by increase of passenger expectations from loyalty programs.

Based on the obtained path coefficients, it can be stated that among the variables affecting the situational reaction, 1 - perceived desirability, 2 - Economic (Financial) relations, 3 - the importance of customer independency in purchase behavior and reaction characteristics in people with a same rate, 4 - Structural relations and finally 5 – social-psychological relationships have the maximum influence on the situational reaction stimulus respectively. On the other hand, it can be stated that most of the passenger’s reaction against these programs is in the form of disinclination to buy from the airline and secondly it will be the disinclination to participate in loyalty programs. Based on results, the reaction stimulus will not lead to word of mouth advertising and this is justified by the manners, attitude and society culture.

**DISCUSSION**

According to the results of data analysis, suggestions are offered in two forms.

**Suggestions based on research findings**

The results assessing the first and second research hypotheses of this study confirm the direct and positive impact of customer personal characteristics (the importance of customer independency of purchase behavior and reaction characteristics in people) on situational reaction. By relying on this matter, having better understanding of the personal characteristics of their special customers, and trying to meet their needs, managers can reduce the possibility of reaction. The hypotheses number three to five of this study were assessing the impact of loyalty programs on customer reaction. Since the economic (financial) relations in the form of services, such as having extra load free of charge, free catering at Imam Khomeini airport and other services like free passengers transfer from the airport to their destination and vice versa; have been identified as the most effective factor in creating the reaction stimulus against loyalty programs; therefore by relying more on this matter and trying to improve and add services in financial relations, the impact of these factors can be reduced making the passengers very satisfied.
Alternatively, this study shows a less impact of social-psychological relations on other components of loyalty programs; this can be inferred in to two forms. First, maybe because passengers are satisfied due to these relations (priority in boarding, priority in booking tickets when there is no confirmed seat), it has the lowest impact or the low impact of social-psychological on relations stimulus in passengers which can be justified by lack of their attention or unimportant nature of this relationship for them. In both cases, it allows managers to focus mainly on economic (financial) relations and structural relations. Mahan Air structural relations are in the form of direct contacting of frequent flyers and offering numerous special offers and inviting them to different banquets. Structural relations are in the second degree of importance, so managers should reduce the impact of this factor in creating reactions by providing added value for passengers in order to make them committed. Also managers can provide unique and different form of services compare to other airlines in order to accomplish this goal. Since the results indicate that the customer reactions were in the form of their disinclination to participate in loyalty programs and their disinclination to buy from Mahan, managers in this view can pay attention to their special customers (feedbacks and complains) and also their excellent suggestions, and reduce the consequences of this driving factor.

Suggestions for future studies

Since this subject is new, conducting other case studies in different statistical community, covered by loyalty programs is recommended to researchers. Personality is an important factor in reaction among individuals; it is recommended that future research examines the impact of personality in response to loyalty programs. Assessing the effects of external community factors such as economics, technology, politics and other factors on loyalty programs is also suggested.

REFERENCES

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