RELATIONSHIP BETWEEN PERCEIVED SERVICE QUALITY, CUSTOMER SATISFACTION AND BEHAVIOUR INTENTION IN AIRLINE INDUSTRY

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To my beloved family and friends...

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ABSTRACT

Service quality has become prime part of all highly developed organization's strategic plan. Higher attention on service quality has resulted in increasing profit of an organization. Airline services has possesses all the features of service industry such as tangible, reliability, responsiveness, assurance and empathy. This study was to examine the relationship between perceived service quality, customer satisfaction and behavioural intentions in airline industry. The objective of this study were to examine the relationship between perceived service quality and customer satisfaction, to examine the relationship between perceived service quality and customer's behavioural intentions, to determine the relationship between customer satisfaction and customer's behavioural intentions and finally to determine whether customer satisfaction mediates the relationship between perceived service quality and customer behavioural intentions. . Demographic factors which were gender, age, income and frequency of flying used as moderators to test the relationship between the variables. This research conducted on the domestic Air Asia passengers at Sultan Ismail International Airport (Senai, Johor). 200 questionnaires were distributed to the passengers at the boarding area and 163 questionnaires collected successfully. Using the modified SERVPERF as a measure, this study asked the passengers to complete a service quality survey to express their perception on the services and also their satisfaction and intentions towards the services perceived from Air Asia. Therefore, the passengers perceived service quality and customer satisfaction in airline industry can be measured. A sample of 30 questionnaires was used to conduct a pilot study which revealed a statistically significant relationship using Cronbach's coefficient alpha. The finding shows high reliability to all items in the modified questionnaires. Pearson Correlation analysis pointed that service quality and customer satisfaction had a direct positive effect on customer's behaviour intentions. Multiple Regressions indicates the significant level of the independent variables with dependent and intervening variable. Hierarchical Regression Model highlighted customer satisfaction as a significant mediator of behavioural intentions. Possible interpretations, limitations, and implications for marketing specialized are conversed.

ABSTRAK

Kualiti perkhidmatan merupakan aspek yang penting dalam pelan strategik bagi sesuatu organisasi. Kesedaran yang tinggi terhadap kualiti perkhidmatan dapat meningkatkan keuntungan bagi sesebuah organisasi. Industri penerbangan mempunyai semua ciri-ciri industri perkhidmatan, contohnya, nyata, kebolehpercayaan, responsif, jaminan dan empati. Kajian ini dijalankan untuk mengkaji hubungan antara kualiti perkhidmatan, kepuasan pelanggan dan niat tingkahlaku pengguna dalam industri syarikat penerbangan. Objektif kajian ini adalah untuk meneliti hubungan antara kualiti perkhidmatan dan niat tingkahlaku pelanggan, untuk mengkaji hubungan antara kualiti perkhidmatan dan kepuasan pelanggan, untuk menentukan hubungan antara kepuasan pelanggan dan niat tingkahlaku penambang serta menyiasat kepuasan tahap pelanggan yang mengantarakan niat tingkahlaku pelanggan dari kualiti perkhidmatan dalam industri penerbangan. Faktor demografi iaitu jantina, umur, pendapatan dan frekuensi penerbangan digunakan sebagai pengantara untuk menguji hubungan antara ketiga-tiga pembolehubah tersebut. Penyelidikan ini dijalankan keatas penumpang tempatan Air Asia di Sultan Ismail International Airport (Senai, Johor). Sebanyak 200 borang soal selidik telah diagihkan kepada para penumpang di zon pelepasan kapal terbang Air Asia dan 163 soal selidik telah dikutip semula dengan jayanya. Para penumpang diminta untuk menjawab borang soal selidik yang mengunakan model SERVPERF yang telah diubah suai untuk menyuarakan tanggapan terhadap khidmat Air Asia. Lantarannya, kualiti perkhidmatan yang dierima dan kepuasan pelanggan dalam industri penerbangan dapat disukat. Satu kajian peris dijalankan dengan menggunakan sampel 30 borang soal selidik yang mana mendedahkan perhubungan penting secara statistik dengan menggunakan alfa pekali Cronbach. Penemuan menunjukkan kebolehpercayaan yang tinggi untuk semua soalan soal selidik yang telah diubah suai. Analisis Pearson Correlation menunjukkan hubungan langsung dan positif akan kualiti perkhidmatan dan kepuasan pelanggan dengan niat tingkahlaku pelanggan. Model Hierarki Regrassi menunjukan kepuasan pelanggan sebagai pengantara untuk niat kelakuan pelanggan. Tafsiran yang munasabah, had dan implikasi yang penting dari segi pemasaran juga turut dibincangkan.

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LIST OF ABBREVIATIONS

SPSS - Statiscal Package for Social Science

AirAsia - Air Asia Berhad

SKYTRAX - World Airline Survey and World Airport Survey

CHAPTER I

INTRODUCTION

1.0 Overview

This chapter discusses the context of the research. It covers the background of the study, problem statement, research questions, objective of the research, scope of the study, significance of the study, limitation of study and definition of key terms. Finally, organization of the study that briefly explains the contents of the next chapter is presented.

1.1 Introduction

Over the past 50 years, quality has emerged as and remained a dominant theme in management. As to understand service quality, one must first understand the sense of quality. Anderson *et al.* (1994) defines quality as includes every aspect of the firm and is actually a poignant experience for the customer.

Customer wants to feel good about their purchases, which means to feel that they have gotten the best value. They want to know their money have been well spent, and they take pride in their associated with products, services, people processes and environments that meets or go beyond their expectations (Fecikova, 2004). Service quality perceived by the customer is the degree and direction of disparity between customer service expectations and perceptions. In this field of airlines, the service quality refers to the probability of the airline's performance meeting a given service (Gustafsson *et al.*, 1999).

1.2 Background of the Study

Since the eighties, service quality has been one of the most imperative issues in marketing literature and is considered as an important element in management strategies in order to thrive and/or to survive in competitive environment (Parasuraman *et al.*, 1985, 1990 in Martinez, 2007). The pressure of rivalry in most industries has strained managers to look for ways to enhance their competitive position and many have decided to develop service quality in order to distinguish their services from those of their competitors (Martinez, 2007).

The rapid growth in passenger traffic has been experienced worldwide in the deregulated domestic commercial airline market. Competition is ever increasing as airlines try to attain and preserve customers. Price is initially used as the predominant competitive weapon. However, in the long term airlines soon realise that competition on price alone represents a no-win situation. This is mainly due to the fact that airlines are comparatively efficient in responding to competitors' price changes (Jones and Sasser, 1995). Additionally the regulators of the airline system may impede in the price competition as it often results in declined service quality and may affect flight safety. This entails that airlines' competitive advantages based on price only are not sustainable. In a vastly competitive environment, where all airlines have comparable fares and identical frequent flyer programs, airline’s competitive advantages lie in the service quality perceived by customers.

The core competitive is important as to sustain development in highly competitive circumstances and also for the advantage of an airline’s profitability. Theory proposed that increasing customer retention is a most important key to the ability of a service provider to generate profits (Zeithaml *et al.*, 1996; Chen, 2008). It is a vital issue to better realize the determinants affecting a customer’s loyalty and the relationships between determinants and it is commonly believed that higher service quality can direct to a customer’s higher overall satisfaction and consequently to positive behavioural intentions (Chen, 2008).

1.2 Background of Study Location

AirAsia Berhad is a Malaysian low-cost airline. It operates scheduled domestic and international flights and is Asia's largest low-fare, no-frills airline. AirAsia was established in 1993 and commenced operations on 18 November 1996. It was originally founded by a government-owned conglomerate DRB-Hicom. On 2 December 2001, the heavily-indebted airline was purchased by former Time Warner executive Tony Fernandez’s company Tune Air Sdn Bhd for the token sum of one ringgit. AirAsia is a pioneer of low-cost flights in Asia, and was also the first airline in the region to implement fully ticketless travel.

Its main base is the Low-Cost Carrier Terminal (LCCT) at Kuala Lumpur International Airport (KLIA). Its affiliate airlines Thai, AirAsia and Indonesia AirAsia have hubs at Suvarnabhumi Airport, Thailand and

Soekarno-Hatta International Airport, Indonesia, respectively. AirAsia's registered office is in Petaling Jaya, Selangor while its head office is on the grounds of Kuala Lumpur International Airport in Sepang, Selangor.

AirAsia’s mission statement is to be the “Asia's leading low fare no frills airline and first to introduce "ticketless" travelling, AirAsia will be unveiling more incentives in the future to encourage more air travel among Malaysians.” (AirAsia, N.D). “Now Everyone Can Fly” clearly describes AirAsia’s value. Cost advantages created by AirAsia through operational effectiveness and efficiency go directly to the customers. The customers now enjoy much more surplus than before as the fare falls dramatically and AirAsia captures some of the ‘dead weight losses’ by capturing segments of customers that previously cannot afford the airlines’ fare. In 2010 AirAsia won the Skytrax World's best low-cost airline award.

1.4 Problem Statement

Deliverance of customer service quality is widely recognized as being significant determinants of airline’s success in today’s competitive environment. There were vast numbers of airline companies exist in the airline industry. Low cost carriers have reformed the airline industry competitive environment within liberalised markets and have made major impacts in the world’s domestic passenger markets, which had previously been largely controlled by full service network carriers (O’Connel and Williams, 2005). It is vital in understanding and meeting customers’ expectations and subsequently being different from competitors in order to survive in today’s world of globalization. It is essential that service companies’ measure and monitor service quality and satisfaction with a view to influencing the behavioural intentions of their customers (Saha and

Theingi, 2009).

In the early 2000s, airlines services categorized as low cost carriers or LCCs emerged in the airline industry in the South-East Asia constituency following deregulation. Air Asia initiated low cost travelling in Malaysia as well as in Asia. Air Asia was established in 1993. The Malaysian second low cost carrier is Firefly which was established in the year 2007, and it is a full subsidiary airline of Malaysian Airlines which is the full service national carrier. The development approach of low cost carriers can be simplified as “low costs, low fares, and no frills”:

These airlines have begun to compete with one another in addition to the full service airlines as the number of low cost carriers has increased. In these challenging situations, a comparative study on the similarities as well as differences between low cost carriers and full service airlines is obviously relatable and important. Airline services regardless of whether they are full service or low cost carriers are made up of a very complex mix of intangibles (Gursoy *et al.*, 2005). Thus, measuring customers’ expectations, as well as their service quality is a real challenge because customer satisfaction is determined by many intangible factors such as environment and ambiance of the cabin, crews’ behaviours and etcetera (Fitzsimmons and Fitzsimmons, 1994). As to increase customer satisfaction and subsequently customer loyalty, airlines companies need to review its service strategy. They should have well-built commitment to service excellence as they also perform as the ambassadors that carry the image of Malaysia.

SKYTRAX (World Airline Survey and World Airport Survey) conducted a wide range of customized research studies yearly, for a variety of airlines, airports and allied travel suppliers. Airlines are subjected to a very detailed quality evaluation across all areas of their front-line Product and Service standards by SKYTRAX covering all areas that passengers will "typically" experience during their trip as to achieve SKYTRAX Approved Airline™ status.

SKYTRAX which have awarded AirAsia as the World Best Low Cost Carrier has also officially rank AirAsia as 3 Star Ranking of Product and Service Quality. As by August 2010, commenting on requirements to achieve SKYTRAX Approved Airline status, Edward Plaisted (CEO, Skytrax) said "we have a core set of product and service delivery Quality standards that an airline must meet, but the critical factor for successful certification is their consistency of performance. SKYTRAX evaluate full service and low-cost airlines, because they are focusing on their ability to deliver what is expected, applied to their designated and marketed package of product and service.”

Mediator effects give a more complete understanding of the causal mechanisms involved. A mediation model that links service quality to customer behavioral intentions via customer satisfaction is proposed for the study. In today service firm, the customer’s satisfaction in one of the particular organization is very important. It is because customer can bring profit and also the sales for the organization when they become loyal and repurchase the service (Sureshchander *et al.*, 2004). The loyalty and repurchase of the passenger of AirAsia airline is very important because the customer’s satisfaction on the service that are provided by the AirAsia will persuade the passengers in making the decision in the future. Even though many researches have proved that customer satisfaction mediates between service quality and customer’s behavioral intention but this research will be focusing whether customer satisfaction still perform as a mediator for the domestic passengers of Air Asia.

Moderator variables have get pleasure from a surge of popularity in the marketing literature in recent years, and scholars have acknowledged their importance for predicting consumer behaviour intentions (e.g., Baron and Kenny, 1986; McMullan, 2005; Sharma *et al.*, 1981). Individual differences influence on how they measure service quality. Demographic variables, such as age, gender, and socioeconomic status, are known as customer characteristic. Research has shown that individual customer differences (e.g., gender, age and income) are significant determinants of the mean level of satisfaction (Bryant and Cha, 1996; Johnson and Fornell, 1991; Söderlund, 2002). Subsequent studies have shown that customer characteristics are also associated with outcomes of customer satisfaction. For example, Mittal and Kamakura (2001) explored the moderating role of customer characteristics on the relation between satisfaction and repurchase intentions, and Cooil *et al.* (2007) investigated the moderating role of customer characteristics on the relation between customer satisfaction and customer loyalty.

However, there has been no research that explores the moderating role of these variables on the relationship of customer satisfaction and customer behavioural intentions in airline industry. This study therefore attempts to provide additional insight into the relationship between customer satisfaction and customer behavioural intentions by examining the effects of the moderator variables identified in Cooil *et al.* (2007) and Mittal and Kamakura (2001) which was gender, age and income on domestic passengers of Air Asia. These customer characteristics used as moderators because respondents from different background group have different purchasing pattern. So the mention characters will influence the passenger's behavioural intention based on their interest, need and also the ability of their buying power.

Besides that, based on the literature review, no study also has been done on the moderating role of frequency of flying on the relationship of service quality and customer satisfaction. Frequency of flying will be use as the moderator because the more frequent a passenger purchase a service, the more their aptitude to judge the level of service quality based on their experience. In other word, it will determine the level of customer satisfaction and influence their behaviour intention towards repurchasing the service. This research initiated to fill this gap.

1.5 Research Questions

Below is the research questions that been developed to support the objectives and as well as to help to accomplish the research purposes:-

i. What is the relationship between perceived service quality provided by the airline and customer behavioral intentions?
ii. What is the relationship between perceived service quality provided by the airline and customer satisfaction?
iii. What is the relationship between customer satisfaction and customer behavioral intentions in airline industry?
iv. Does the customer satisfaction mediate the relationship between perceived service quality and customer behavioral intentions?
v. Does frequency of flying moderate the relationship between perceived service quality and customer satisfaction?
vi. Does gender moderate the relationship between customer satisfaction and customer behavioral intentions?
vii. Does age moderate the relationship between customer satisfaction and customer behavioral intentions?
viii. Does income moderate the relationship between customer satisfaction and customer behavioral intentions?

1.6 Objective of the Study

In order to answer the research questions of this study, objectives of the research are:-

i. To identify the relationship between perceived service quality and customer behavioral intentions in airline industry.

ii. To identify the relationship between perceived service quality and customer satisfaction in airline industry.
iii. To identify the relationship between customer satisfaction and customer behavioral intentions in airline industry.
iv. To determine whether customer satisfaction mediates the relationship between perceived service quality and customer behavioural intentions.
v. To determine whether frequency of flying moderates the relationship between perceived service quality and customer satisfaction.
vi. To determine whether gender moderates the relationship between customer satisfaction and customer behavioural intentions.
vii. To determine whether age moderates the relationship between customer satisfaction and customer behavioural intentions.
viii. To determine whether income moderates the relationship between customer satisfaction and customer behavioural intentions.

1.7 Scope of the Study

This research identifies the level of service quality of AirAsia by using SERVPERF model which measured through five distinct dimensions from SERVQUAL, which are tangibles, reliability, responsiveness, assurance and empathy (Parasuraman *et al.*, 1988). The dimensions of service quality and customer satisfaction are focused from the customer's perspectives, particularly on the customer's behavioral intentions towards an airline.

This research focused on the AirAsia airline at Sultan Ismail International Airport (Senai, Johor Bahru). The respondents for the research are domestic passengers of AirAsia and do not include the international passengers and cargo operation.

Convenient sampling method will be utilized in this research. The respondents are those domestic passengers who are willing to participate in the survey and no gift is given after the survey.

1.8 Significance of the Study

Satisfaction is primarily determined by effective responses and they highly influence the customer's behavioral intentions. The more satisfied the customer is, the higher the intentions that he or she will repurchase the service from the organization.

This research of service quality is important because it would be helpful for airline strategic planning in mapping out the strategies in improving customer's service quality. It will enable to assist management knowledge in better understanding the customer's perception regarding service quality by considering the demographic factors. This study would enhance the knowledge of service quality and customer satisfaction that attribute to their behavioral intentions to AirAsia. The moderator analysis helps firms identify those situations in which the link between service quality, customer satisfaction and customer behavioural intentions is particularly strong and therefore in which investments in certain variables offer particular promise for retaining customers.

1.9 Limitation of the Study

There are few limitations in this research. Firstly, this research will be conducted only to AirAsia domestic passengers at Sultan Ismail International Airport, Johor, and does not include the international service and cargo operation. Other limitations included the time frame to complete the study and the generalization of the study. The reliability of the findings is subject to sincerity and truthfulness at the time respondents respond to the questionnaire is also the limitation during this research.

This is a social study on customer perception on service quality of an airline; therefore some of its argument and discussions are subjective. Customer’s habit and behavior changes according to their mood and situation during the survey performed.

1.10 Conceptual Definition

1.10.1 Service

Service is defined as deeds, performance or efforts (Lewis, 1989). Parasuraman *et al.* (1988) denotes that service is deeds, acts or performances where Gronroos (2000) sees service as activity or processes. Services are processes where a bundle of resources cooperate in order to support the customer's processes in a value generating way (Gronroos, Christian, 2000).

1.10.2 Quality

Quality is defined as degree to which a set of inherent characteristics fulfill requirements (ISO 9001:2008, in InQKA). Quality must be in customer terms. The judgments of quality lies on how well their needs and expectations are satisfied.

1.10.3 Customer

Customers can be defined as anyone who buys (Webster's New World Dictionary, 1988) or anyone we exchange value with (Timm, 1997). A passenger of an airline is a customer who buys the transportation service, where a patient to a hospital is a customer who buys the medical service.

1.10.4 Satisfaction

In the Oxford Dictionary (Eight Edition, 2002), satisfaction is defined as the feeling of pleasure that arises when a person have the things they need or want, or when the things they want to happen have happened.

1.10.5 Expectation

Expectations are well known to service marketers as most definitions of service quality revolve around “meeting or exceeding customer expectations” (Kong and Mayo, 1993). Webster’s New World Dictionary (1998) defines expectation as a looking forward to anticipation or a looking for as due, proper or necessary. Expectation of service is the hope of customer toward actual happening of service offered based on needs, backgrounds and information

(Edvardson *et al.*, 1994). Parasuraman *et al.* (1988), claim that the service quality conceptualized as the "degree and direction between customers perception and expectation" and to expectations being less relevance.

1.10.6 Perception

Based in the Oxford Dictionary (Eight Edition, 2002), perception defined as the ability to see, hear or become aware of something or a particular understanding of something, or the process of perceiving. Parasuraman *et al.* (1985) defines perception as a difference between expectations with actual service performance.

1.10.7 Behavioral Intentions

Zeithamal *et al.* (1996) suggested that behavioral intentions were indicators, which showed whether customers had remained with or had defected from the organization. According to the model presented by Zeithamal *et al.*'s (1996), behavioral intentions can be predict or measure as purchase intentions, word of mouth communication, complaining behavior and price sensitivity.

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