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Service Quality on Customer Loyalty and Intentions to Switch in the Airline Industry in Malaysia

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ABSTRACT

Background: In the globalized era, the ever emerging significance of the airlines industry as one of the important economic developments of recent decade cannot be taken lightly. The airlines industry has played an important role in the global economy especially in serving customers domestically as a vital component in the tourism industry and remains essential to the conduct of international business. Moreover, low cost carriers have become dominant players in the airlines industry in the recent years. Low-cost carriers in Malaysia have made a remarkable revolution in the air travel with rapidly increasing growth over the years. **Objective:** This study attempts to find out the impact of customer satisfaction on customer loyalty and their intentions to switch to other low cost carriers in Malaysia. Data were collected over a period of two months using survey questionnaire from 265 walk-in customers at travel agencies around Kuala Lumpur, Malaysia. The data collected were then analyzed using SPSS. Pearson correlation and multiple regression analysis were used to examine the correlation between independent variable and dependent variable. **Results:** The results of the study indicated that there is a positive correlation between customer satisfaction and customer loyalty but showed negative correlation with customer with customer intentions to switch. **Conclusion:** conclusions and implications of the study are also discussed based on the analysis.

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INTRODUCTION

In Malaysia, there are two types of airlines namely Full Cost Carriers (FCC) and Low Cost Carriers (LCC). The first airlines corporation in Malaysia was started in October 1937 by Malayan Airways Limited (MAL) which is now called Malaysia Airlines (MAS) (MAS, 2011). There are also several other LCC in Malaysia such as, Air Asia, Air Asia X, Firefly, Maswings, Berjaya Air and Sabah Air Aviation (David, 2011). Based on Uherek (2006), the real start for nation-wide LCC was after the implementation of Aircraft Deregulation Act in 1978 which meant liberation of the market for flight routes and flight prices between the states in the US. The history of LCC was first offered by Southwest Airlines since 1967 in Texas, United States. Besides, the concept of LCC was initially incepted in 1950 by Pacific Southwest and 1967 by Southwest Airlines with a sole objective of offering cheap airfares to the consumers. With the concept, it has created a situation where the already established flagship carriers or legacy airlines to lose a significant amount of the market share to these newly formed LCC, merely because of the ability to offer at a lower price over traditional FCC (Hameed, 2011).

Offering exceptional service to customers is ultimately the main concern for Airlines Corporation. The contributing factor for the latter is because of the fact that only satisfied customers will have the intention of repeat purchase (Jusuf, 2011). Additionally, they will tend to share their great experiences and benefits with their network of friends. Many people would argue that price is the most crucial element of concern among the customers. However, the service provided is closely related as the most significant concern in the airlines industry. Continuous improvement in the service provided to the customers should be planned and executed to maximize the business performance.

The improvement in customer satisfaction for airlines industry can be linked with the measurements of service quality such as tangible features (TF), schedule, services provided by ground staff (GS) and flight attendants (FA), online services (OS), food services (FS) and level of passenger satisfaction. According to Brown (1991), service quality is difficult to define because of the intangible nature of the service offering. The definition of quality may differ from situation to situation and from person to person.

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In this study, customer satisfaction towards service quality was focused on a low cost carrier in Malaysia. By applying the measurements of service quality like tangible features, schedule, services provided by ground staff and food service, online services and level of passenger satisfaction, the researcher have identified the dimension of service quality that affects the customer satisfaction. This dimensions' serve as the most critical dimension for LCC. By conducting this study, the information and results have practical implications for LCC managers as they can manage company resources to make significant improvement in terms of customer satisfaction.

2.0 Literature Review:

Considering the competitive environment, there is a need for airline industries to plan their strategies that will differentiate them from another. This can be achieved through the delivery of high service quality. The practice of excellent service quality has been proven that customer satisfaction will significantly lead to customer loyalty (Caruana et al., 2000).

2.1 Customer Satisfaction:

Customer satisfaction is one of the most important issue concerning business organization of all types, which is justified by the customer oriented philosophy and the principles of continues improvement in modern enterprise. For that reason, customer satisfaction should be measured and translated into number of measurable parameter. Customer satisfaction measurement may be considered as the most reliable feedback, providing client' preferences and experiences in an effective, direct, meaningful and objective way. Thus, customer satisfaction may be considered as a base line standard of performance and a possible standard of excellence for any business organization (Gerson, 1993).

Customer satisfaction is a complex construct. It has been defined in various ways (Besterfield, 1994; Barsky, 1995; Kanji and Moura, 2002; Fecikova, 2004). Recently, researchers have argued that there is a distinction between customer satisfaction as related to tangible products and as related to service experiences. This distinction is due to the inherent intangibility and perishes ability of services, as well as the inability to separate production and consumption. Hence, customer satisfaction with services and with goods may derive from, and may be influenced by, different factors and therefore should be treated as separate and distinct (Veloutsou et al., 2005).

Customer satisfaction, for instance, is considered as a necessary condition for customer retention, and assists in realizing economic goals like sales turnover and profit revenue (Zeithaml et al., 1990; Berry and Parasuraman, 1991). Customer satisfaction is defined as "the customer's response to the evaluation of the perceived discrepancy between prior expectations and the actual performance of the product/service as perceived after its consumption" (Tse and Wilton, 1988: 204). Indeed, customer satisfaction has for many years been perceived as key in determining why customers leave or stay with an organization. Organizations need to know how to keep their customers, even if they appear to be satisfied. Reichheld (1996) suggests that unsatisfied customers may choose not to defect, because they do not expect to receive better service elsewhere. Additionally, satisfied customers may look for other providers because they believe they might receive better service elsewhere.

2.2 Customer Loyalty:

Customer loyalty can only be achieved after consistently meeting customer satisfaction. Time constraint is almost a barrier to customer satisfaction as more and more unique ways are adopted to meet the ever changing nature in the service industry. Organizations are developing advanced methods to keep abreast with technology and how it affects the service industry. Customer loyalty on the other hand is achieved after consistent record of meeting with clients over a period of time and sometimes even exceeding customer expectations (Teich, 1997). Kotler et al. (1999) states the cost of attracting a new customer may be five times the cost of keeping a current customer happy. Gremler & Brown (1996) stated that the most important definition of customer loyalty relating to this study; the degree to which a repeat customer shows signs of re-patronage behavior, possesses a affirmative temperament toward the service provider, and considers only using a single service provider when the intentions to re-purchase this service exists.

According to Bloemer & Kasper (1995), loyalty is interpreted as true loyalty rather than repeat purchasing behavior, which is the actual re-buying of a brand, regardless of commitment. Zeithaml et al. (1996) states loyalty is a multi-dimensional construct and includes both positive and negative responses. However, a loyal customer may not necessarily be a satisfied customer. Colgate et al. (1996) also noted that it is not always the case that customer defection is the inverse to loyalty, while Levesque and Mc Dougall (1993) suggested that, "even a problem is not solved, approximately half of the customers would remain with the firm". This may be due to switching costs, lack of perceived differentiation of alternatives, location constraints on choice, time or money constraints, habit or inertia which are not related to loyalty (Bitner, 1990; Ennew & Binks, 1996).

2.3 Service Quality:

Service quality became a focus of management research through the 1980s and early 1990s. The field is dominated by the SERVQUAL and SERVPERF conceptualizations. These two approaches are based on dimensionality, expectations, experiences, outcomes and stakeholder gaps. Satisfaction and loyalty are concepts that are closely connected with service quality and often included in the same research project as variables that are dependent on service quality. The dimensions of service quality were proposed as the core of SERVQUAL (Parasuraman A, Zeithmal, V and Berry, L 1985) and then developed into a measurement instrument (Parasuraman A, Zeithmal, V and Berry, L 1988), the gaps between the players in service delivery and consumption was proposed as an integral element in the application of the SERVQUAL construct (Parasuraman, A, Zeithmal, V and Berry, L 1988). SERVPERF extended SERVQUAL with the addition of an evaluation of service performance embodied in satisfaction (Cronin and Taylor 1992).

The validity and relative worth of SERVQUAL and SERVPERF have been the focus of review and debate (Buttle 1996), concluding that whether customers evaluate service quality in terms of expectations and perceptions is questionable. Other authors have since looked at comparing the two models, for example, Jain and Gupta (2004), Gilmore and McMullen (2009) and Carrillat et al (2007). The key issues in the conceptualization of service quality remain dimensionality, disconfirmation and contextual adaptation.

3.0 Methodology:

3.1 Research Framework and Hypotheses:

A number of studies had identified the links between loyalty customer service, satisfaction and trust. Beerli *et al.* (2004) state that in the airline industry the impact of satisfaction on loyalty is considerably stronger than the cost of switching, and satisfaction is an antecedent of perceived quality. In order to verify the relationship between the independent and dependent variables, two hypotheses were developed. The framework for the study was adopted and modified from the empirical study by Beerli *et al.*, (2004) depicted below. Figure 3.1 illustrates the relationship between customer satisfaction, tangible features, schedule, passenger satisfaction and online service.

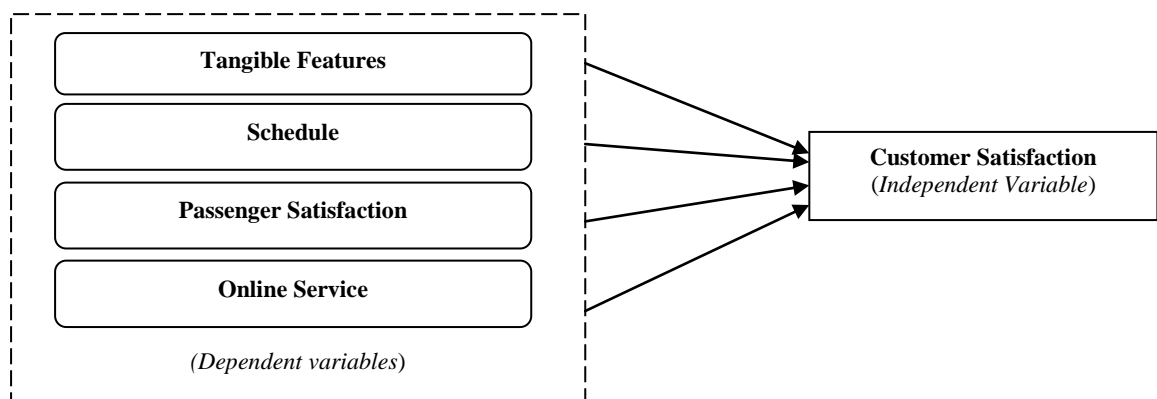


Fig. 3.1: Proposed Theoretical Model.

3.2 Hypotheses of the Study:

The hypotheses of the study are developed as below:

H₁: There is a significant positive relationship between customer loyalty and customer satisfaction.

H₂: There is a significant negative relationship between intentions to switch and customer satisfaction.

3.3 Population:

The target population of the study comprised of walk-in customers who are patrons of travel agencies in Kuala Lumpur from March to May 2013. A total of 350 questionnaires were randomly administered to all walk-in customers at the selected outlets at Klang Valley over a period of two months. The respondents were asked to apprise their ratings with the service rendered by the LCC.

4.0 Analysis and Interpretations:

Table 4.1 below provides the demographical distribution of the respondents with regard to various categories.

From Table 4.1 below, the sample respondents were relatively equal proportion of males (44.25 %) and females (55.75%) respectively. It is also evident that the age group are mainly from 26 to 40 years old (51%), followed by 16% who are above 45 years old, between 36 to 45 years of age (21%) and 12 % were below 25 years old. A majority of the respondents were married 59% while 31% of them unmarried and a mere 10%

engaged to be married. The respondents were predominantly graduates (63%) and post-graduates (18%) with the others mainly have secondary education (15%). This implies that the respondents had high literacy levels. With regard to employment status, the respondents were a mix of professionals (29%), self-employed (21%), salaried employment (39%), students (3%) and others (8%). It is quite obvious that the employment level was high among the respondents. The study had a majority of the respondents earning between 24k to 48k per annum and 19% earnings below 24k per annum.

4.1 Data Analysis:

A total of 350 sets of questionnaires were distributed to the potential respondents and a total of 145 questionnaires were collected. Out of this, 28 sets of the questionnaires were considered unusable because over 35 percent of the questions in Part 1 – Section A of the questionnaire were not answered (Sekaran, 2003). It was assumed that the respondents were either unwilling to cooperate or not serious with the survey. Therefore, only 117 usable sets of collected questionnaires were used for the data analysis. Thereby, the response rate was 80.68 percent. Section A collects the respondents' demographic data which consists of elements such as gender, age, ethnicity, marital status, level of education, length of occupation and monthly income level. Section B consists of four independent variables, which is tangible features, schedule, passenger satisfaction and online service with customer satisfaction in the airline industry. Each variable comprises of five to twelve questions that are required to be answered by the respondents. The respondents were required to provide their rating on their perception using a 5 point Likert Scale measurement that ranged from 1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree. SPSS was used to test the relationship between the independent variables and dependent variable using Pearson Correlation and Multiple Regression Analysis.

Table 4.1: Demographics Profile of the Customers.

No.	Demographics	Frequency	Percentage
1	Gender:		
	Male	52	44.25
	Female	65	55.75
2	Age/years:		
	Below 25	14	12
	26-35	59	51
	36-45	25	21
3	Marital Status:		
	Married	69	59
	Not married	36	31
	Engaged	12	10
4	Monthly Income:		
	Below 24k per annum	23	19
	24k – 48k per annum	81	69
	48k – 60k per annum	11	10
5	Employment Status:		
	Self-employed	25	21
	Salaried employment	45	39
	Professionals	34	29
	Students	4	3
6	Others	9	8
	Education Levels:		
	Secondary school	18	15
	Tertiary	74	63
	Postgraduate	21	18
	Others	4	4
	Total	117	100

Table 4.2: Overall Satisfaction Levels.

Satisfaction Levels	Frequency	Percentage
Very dissatisfied	7	6
Fairly dissatisfied	8	7
Neither satisfied nor dissatisfied	10	9
Fairly satisfied	67	57
Very satisfied	25	21
Total	117	100

4.2 Descriptive Statistics:

Table 4.3 below provides the descriptive statistics of the independent variables (customer satisfaction) and the dependent variable (tangible features, schedule, passenger satisfaction and online service). The mean value

of customer satisfaction is 4.13 with standard deviation of .768 indicating that customers are satisfied with their respective LCC provider. The mean values of dependent variables (tangible features, schedule, passenger satisfaction and online service) are 3.86, 3.51, 3.33 and 3.41 respectively, which is above the threshold of 3. Moreover, standard deviations for these variables are .623 for tangible features, .575 for schedule, .493 for passenger satisfaction and .512 for online service indicating that respondents are loyal customers and any disparity in the services provided would never cause them to switch to another LCC which offers better customer services.

Table 4.3: Summary of Means & Standard Deviations.

Variables	Mean	Std. Deviation
Customer Satisfaction	4.17	0.778
Tangible Features	3.86	0.623
Schedule	3.51	0.575
Passenger Satisfaction	3.33	0.493
Online Service	3.41	0.512

Table 4.4 below provides the correlations of the variables used in this study (customer satisfaction being the independent variable whereas tangible features, schedule, passenger satisfaction and online service being the dependent variables). All variables are significant at 1% level of significance. The correlation coefficient of customer loyalty for customer satisfaction is .124 which is significant thus we accept H1 hypothesis which states that customer satisfaction has a positive significant relationship with customer loyalty. For the customers' intentions to switch, the correlation is -.157 which also indicates that we accept the H2 hypothesis which states that customer satisfaction has a negative significant relationship with intentions to switch. On the whole, the findings indicated that respondents in this study are loyal to their service providers and are not thinking of switching to another LCC offering better services.

Table 4.4: Correlations.

Customer Satisfaction	Pearson Correlation Sig. (2-tailed) N	Customer Loyalty	Intentions to Switch
		.124** .003 165	-.157** .001 165

Note: ** sig at level 0.01

5.0 Conclusions:

This study attempted to find the impact of customer satisfaction on customer loyalty and intentions to switch to other airline service providers. Customer satisfaction does have a positive effect on an organization's profitability. According to Hoyer and MacInnis (2001), satisfied customers form the foundation of any successful business as customer satisfaction leads to repeat purchase, brand loyalty, and positive word of mouth. However, Bowen and Chen (2001) said that having satisfied customers is not enough, there has to be extremely satisfied customers. This is because customer satisfaction must lead to customer loyalty. Bansal and Gupta (2001): "Building customer loyalty is not a choice any longer with businesses: it's the only way of building sustainable competitive advantage. Building loyalty with key customers has become a core marketing objective shared by key players in all industries catering to business customers. Loyalty is vulnerable because even if the customers are satisfied with the services rendered by the financial institutions, there is always an element of defect if they think they can get better value for money in other institutions. Satisfaction is essential but not enough to gauge loyalty among customers. In other words, we can have customer satisfaction without loyalty but it is difficult to comprehend having loyalty without satisfaction. Therefore, all organizations should try and satisfy their customers and to ensure their loyalty. Customer satisfaction and loyalty is perhaps the most talk about topic in the 21st century.

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