



Monitoring quality of service at Australian airports: A critical analysis

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ABSTRACT

The quality of service monitoring forms a key element of the current light-handed regulation at Australian airports. The ACCC (Australian Competition and Consumer Commission) evaluates and publicly reports the quality of service levels of the four largest airports on a yearly basis to pressure airports to maintain an acceptable service performance. This article aims to provide an in-depth analysis of the methodology used by the ACCC. This analysis includes a critical review of the methodology based on secondary information in combination with primary research (i.e., data from 21 semi-structured interviews) that considers the current perception of the methodology among key stakeholder groups. The research finds that the methodology used by the ACCC is underpinned by some limitations, putting in question its effectiveness, reliability and validity. Particularly, its weak design does not allow for a comprehensive interpretation of the reported results or a reliable comparison across monitored airports, thus reduces transparency. Stakeholders pointed out that it is not possible to evaluate whether an airport undertakes infrastructure investments that ensure both the efficiency of ongoing airport operations and appropriate levels of service quality. These limitations add to the perception that the ACCC in its current function is not a ‘credible threat’ to airports with market power. Recommendations and future research directions are provided to address the identified limitations.

1. Introduction

One key element of the light-handed regulation (LHR), as currently in place at Australia's top four airports (i.e., Brisbane, Melbourne, Perth, Sydney), is the monitoring of quality of service. The LHR does not involve formal price regulation or place any immediate constraints on aeronautical charges but instead monitors airport prices and quality of service levels (Littlechild, 2012). Also, it carries the threat of re-imposing stricter regulation in cases where an abuse of market power is evident (Gillen, 2011). A main objective of the LHR is to overcome the drawback of conventional regulation frameworks imposing few incentives for the regulated enterprise to pursue productive efficiency (Vogelsang, 2002). Specifically, in Australia, the LHR aims to a) foster commercial negotiations between airport operators and their customers; b) decrease the costs of administration; and c) encourage airports to undertake infrastructure investments that ensure both efficiency of ongoing airport operations and appropriate levels of service quality (Arblaster, 2014; Lohmann and Trischler, 2017). The present article focuses on airport quality of service, including its monitoring approach as used by the ACCC.

In its latest report, the Productivity Commission (PC) did not reach any conclusions regarding the quality of service levels at Australia's

monitored airports, apart from the observation that the airports have performed ‘relative to each other’ (Productivity Commission, 2011). This lack of analysis is somewhat troublesome when considering that quality of service levels among the four airports has brought mixed results since the start of the monitoring regime in 2001 (ACCC, 2016). In addition, the monitoring of service quality forms a key aspect of the LHR because this regime encourages airports to increase profits. One possible way to do this is by allowing service levels to fall through underinvestment (Francis et al., 2002; Adler et al., 2015). The argument that revenues from concession services, such as retailing, car parking and catering, might deter an airport from decreasing quality of services or delay infrastructure investments is not sufficiently grounded (Fu et al., 2011).

Based on the limited attention given to quality of service as a key element of the LHR framework, the purpose of the present research is to provide an in-depth analysis of the methodology used by the ACCC to monitor the quality of service at the four Australian airports. The analysis includes a critical review of the methodology with secondary information in combination with primary research that considers the current perception of the monitoring approach among key stakeholder groups. These are representatives from Australia's major airports and airlines, government regulatory bodies, national aviation associations

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and leading Australian academics within the underlying field.

The research is timely and relevant considering the publication of the latest guidelines developed for monitoring the quality of service (ACCC, 2014), as well as the mixed responses to the methodology from the airline industry (e.g., Board of Airline Representatives of Australia, 2012; Qantas Airways, 2012) and airports (e.g., Finch et al., 2010; Brisbane Airport Corporation, 2012). Notably, quality of service is a multidimensional construct (Bezerra and Gomes, 2016) and is perceived differently depending on the respective customers' needs and preferences (Pantouvakis and Renzi, 2016). In its in-depth analysis of the methodology used by the ACCC, the present article takes these aspects into account. Thereby, the analysis focuses on the monitoring of airport services provided to passengers and airlines respectively. However, it excludes car parking and landside services which, while relevant service components, were only recently added (i.e., car parking in 2012; landside services in 2013) and are reported separately within the ACCC monitoring reports. Also, while the focus of this article is not on price monitoring because it follows a different methodology and is regulated by the PC, pricing is still discussed to highlight issues related to the overall perception of stakeholders concerning the current monitoring approach.

The remainder of the paper is structured as follows. The next section defines the concept of airport service quality and discusses its relevance for airports in general and for regulatory purposes in particular. The study methodology is then described, followed by an in-depth review of the approach used by the ACCC to monitor and report quality of service at airports. This review is followed by the findings from semi-structured interviews conducted with key stakeholders. The article concludes with discussing the theoretical and managerial implications of the findings, as well as outlining limitations and directions for future research.

2. Literature background

2.1. General overview of service quality at (regulated) airports

In broad terms, airport service quality refers to the difference between a customer's expectations and the perception of the actual service received (George et al., 2013). Customers, in the context of the ACCC report, include passengers and airlines offering cargo and passenger transport services (Polk and Bilotkach, 2013). Airport service quality, particularly as perceived by passengers when travelling through an airport, has gained increasing interest among scholars and practitioners owing to its close link to a) customer satisfaction (Tsai et al., 2011; Bogicevic et al., 2013), b) airport efficiency (De Nicola et al., 2013; Merkert and Assaf, 2015), and c) non-aeronautical revenue (ACI, 2017a). In fact, airport service quality surveys are now widely used by both airport operators and regulatory authorities (Adler et al., 2015; ACI, 2016; Bezerra and Gomes, 2016).

Despite the increasing interest in airport service quality, there is no consensus regarding its actual measurement because of two main reasons. Firstly, the complicated nature of airport services implies that multiple dimensions can influence a customer's perception of service quality (Fodness and Murray, 2007). Secondly, an airport typically accommodates various customer groups with different preferences and needs (Pantouvakis and Renzi, 2016). Most studies have focused on passenger services and aggregated airport service quality into broad service dimensions. However, these dimensions differ between studies. For example, while Yeh and Kuo (2003) distinguish between six dimensions (i.e., comfort, processing time, convenience, courtesy of staff, information visibility and security), Fodness and Murray (2007) categorise service quality into three broad categories (i.e., function, interaction and diversion). More recently, Pantouvakis and Renzi (2016) use three dimensions, i.e., servicescape and image, signage, and services, but found significant differences in the perception among passengers of different nationalities. Finally, in a first attempt to develop and validate a multidimensional measurement model for airport service quality,

Bezerra and Gomes (2016) distinguish between a) the performance of core airport processes (check-in and security screening), b) aspects related to the passenger-airport interaction on the passenger's movement through the terminal, leisure/convenience alternatives, and c) the airport servicescape.

Many airports use service quality measures for operational performance and benchmarking purposes. For example, 250 airports worldwide use the ASQ (Airport Service Quality) survey from Airports Council International (ACI) to analyse their airport's performance as well as to benchmark their results against airports within the local market and across the globe (ACI, 2017b). The ASQ Survey covers 34 key service areas categorised into eight major categories including access, check-in, security, airport facilities and food and beverage providers among others. In its reports, ACI (2017a) suggests that the close monitoring of service quality is pivotal for airports because sustaining high service standards can foster non-aeronautical revenues (e.g., revenue from rents or concession services such as retailing, restaurants, banking etc.). Also, diversification of revenue sources in an airport's financial portfolio can also serve as an important cushion during economic downturns. However, although the ACI measurement instrument is widely applied in practice, notably limited consideration has been placed on the actual reliability and validity of the instrument used (see Bezerra and Gomes, 2016 for a critique).

The monitoring of service quality also forms a key element of regulatory frameworks, especially those adopting incentive regulation approaches (Francis et al., 2002). It is significant because, in many instances, airports possess considerable market power because of the impracticality in most cases of substituting air and other transport modes (Forsyth, 2008). An unregulated airport might use its advantageous market position to invest less in the quality of services or delay infrastructure investment (Starkie, 2002). Likewise, airports operating under an incentive regulatory regime, such as the LHR, can increase profits by allowing quality to fall through underinvestment (see Adler et al. (2015) for a comprehensive assessment of the different airport regulation approaches). Consequently, to ensure that acceptable levels of service and charges are delivered to the customer, the UK Civil Aviation Authority (CAA) uses benchmarking to compare airports with the 'best in class' (Francis et al., 2002). In other countries, including the major airports in Italy, Aéroports de Paris, and Budapest Airport, quality of service is regulated as part of the incentive regulation, for example, by integrating a factor representative of service quality in the price regulation formula, or applying penalties to airports not meeting a set minimum quality of service standard (Rovizzi and Thompson, 1992; Adler et al., 2015).

2.2. Quality of service monitoring at Australian airports

This article focuses on the quality of service monitoring and reporting approach used by the ACCC as part of the LHR. The ACCC has monitored the quality of service at major Australian airports since July 1997. At that time, monitoring was used to complement an airport-specific price regulation regime comprising price monitoring, price caps and 'show cause' procedures for new investments (Littlechild, 2012). However, in its first review, the PC (2002) concluded that the informational challenges confronting the price control regime risked regulatory failure by distorting production decisions and 'chilling' airport investment. The price controls were therefore replaced by the LHR which includes no direct regulatory control over prices, revenues or profits, but instead monitors airport prices and quality of service levels. Following the recommendations of the PC in the latest review (PC, 2011), the Government directed the ACCC to continue price and quality of service monitoring at Brisbane, Melbourne, Sydney, and Perth airports until June 2020 (see Arblaster, 2016 for a recent critique). This approach is commonly referred to as 'sunshine regulation' and is based on the analysis and publication of performance results in comparison with other operators within the same sector (Marques, 2006; Marques

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