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The Quality – Profitability Link in the US Airline Business:  
A Study Based on the Airline Quality Rating Index

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**Abstract**

One of the key tasks of an airline company and management is to ensure a high standard of service quality to the customers. Therefore, the paper deals with the importance of the quality-profitability link in the air transportation business. Although there are several quality indexes in the airline business, we are focusing exclusively on the Airline Quality Rating Index (AQR). The AQR includes four main aspects in the measurement, namely on-time performance (OT), denied boardings (DB), mishandled baggage (MB) and customer complaints (CC). The results of this study show a significant effect of the AQR on the US airlines' profitability. On time performance, mishandled baggage and customers complaints also affect the profitability significantly, while a non-significant effect on profitability is given by the AQR component denied boardings. None of the previous researches took into account the link between the AQR index and the profitability of the US airlines. Therefore, this identified gap could encourage airline managers to invest more in quality and its related aspects, as far as the results confirm a significant impact on the airlines' profit.

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## 1. Introduction

The transportation industry and especially air transportation is one of the sectors that significantly contributes to the socio-economic development as well as to the growth and improvement of living standards [14]. The day-to-day challenge for airline companies is, among many other factors, to provide a high service quality to the customers and users of the airlines as well as to respond to the customers' requirements, what, in turn, leads to a higher passengers' satisfaction and has consequently an impact on their decision-making process [5, 12]. Starting with the deregulation in 1978 in the United States, major structural and management changes have been conducted and the issue of quality in this business got fundamental for reaching business excellence and a competitive advantage [1]. Another fundamental aspect is that customer perceptions and consequently service quality are influencing the positioning of the airlines [18]. As every interaction between airline and customer can have an impact on the image that the traveler can have in its mind, a successful market positioning strategy is necessary, contributing consequently to an increase of the companies' profitability [19]. Therefore, it is an interlinking of several factors that leads from service quality to profitability.

Obviously, it is imperative to take into consideration that service quality is mostly one of the main reasons and metrics by which the airline customers are judging the overall quality of an airline company [8]. But the question is, does this effort of trying to attract and retain customers through offering an adequate service quality really help to increment the profitability of the airline companies?

There has been already quite some focus from several researchers on the quality-profitability link in the airline business. Most of the results of previous studies set out that quality has a positive influence on profitability [10, 22] [17]. While the study carried out by Campa-Planas et al. [9] included 4 quality indexes applied in the US airline industry, namely the American Customer Satisfaction Index (ACSI), Airline Quality Rating (AQR), JD Power Airline Satisfaction Index and the Net Promoter Score (NPS); the current study aims to focus exclusively on the AQR, as it is the index with the most public detailed and precise methodology. Therefore, the present article contributes to previous works. First, because it generally offers an overview on how quality can be measured in the airline industry, and secondly, it analyzes a possible relationship between quality and profitability in the US airline industry, based on the Airline Quality Rating index.

The structure of this paper is as follows: We first describe the Airline Quality Rating (AQR) index with its methodology and origins, treating separately the factors the index is composed of. Secondly, we review the academic literature on researches that included the AQR index in their study. Subsequently, the method applied for this study is described and thereafter, results are shown. The final section gives an overview on the conclusions drawn from this study and discusses the potential limitations and further research.

## 2. The AQR rating – methodology and origins

The Airline Quality Rating (AQR) is a joint research project funded as part of faculty research activities at the Wichita State University and Embry-Riddle Aeronautical University since 2014. The Airline Quality Rating Reports were published through a joint research project between Purdue University and Wichita State University [24]. It is an index that is domestically and internationally accepted and acknowledged by the airline industry. It summarizes the quality ratings and permits to compare the performance of the domestic US airlines included in this ranking [3] [8] due to the focus on quantitative factors for providing a more certain result [5]. Being published annually and founded by Bowen and Headley, the ranking included in the first years since its creation in 1991 until 1998 a weighted average of 19 quality related factors. In 1999, Bowen and Headley simplified the index and focused exclusively on only 4 quality related aspects: on-time arrivals (OT), involuntary denied boardings (DB), mishandled baggage (MB) and customer complaints (CC) [3, 13].

The formula calculating the results for the AQR [24] score is as follows:

$$AQR = \frac{(+8.63 \cdot OT) + (-8.03 \cdot DB) + (-7.92 \cdot MB) + (-7.17 \cdot CC)}{(8.63 + 8.03 + 7.92 + 7.17)} \quad (1)$$

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