



# An investigation of customer satisfaction with low-cost and full-service airline companies

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## ARTICLE INFO

### Keywords:

Customer satisfaction  
Service quality  
Airline type  
Low cost  
Full service  
Behavioral intention

## ABSTRACT

Using a survey of 382 passengers, this research examines customer satisfaction and its antecedents and consequences in the context of the airline industry. The relationships among airline tangibles, quality of personnel, satisfaction with the airline, the intention to repurchase and intention to recommend the airline are examined. The findings indicate that tangibles and personnel quality positively affect satisfaction, and satisfaction positively influences intentions to both repurchase and recommend. The key contribution is to test the moderating effect of the airline type: a low-cost vs. a full-service carrier. The results reveal a significant moderating effect of airline type on two relationships: personnel quality – satisfaction and satisfaction – repurchase intention. Specifically, the positive effect of quality of personnel on satisfaction is weaker for the low-cost versus full-service airline, while the positive effect of satisfaction on repurchase intent is stronger for the low-cost airline. The study also discusses implications for airline carriers.

## 1. Introduction

The airline industry was tightly regulated until 1978, when more and more private airlines started to emerge. More recently, there has been a significant rise in the number of private low-cost carriers that emphasize low fares in order to attract passengers (Belobaba, Odoni, & Barnhart, 2015). Airline companies today are faced with various challenges, such as cutting costs, managing fluctuating demand, and meeting the quality requirements (Baker, 2013). In addition to these issues, the intense competition in the global airline industry has intensified the importance of customers' perception of service quality. Numerous studies demonstrate the dependence of airlines' market share, revenues, positive word of mouth, and customer retention on the consumer perception of service quality, and in turn, on customer satisfaction and loyalty (e.g., Anderson, Fornell, & Lehmann, 1994; Forgas, Moliner, Sánchez, & Palau, 2010). In these challenging circumstances of increased competition of low-cost and full-service carriers, calls for an in-depth understanding of in-flight cues guiding relationships between passengers and the airline have been voiced (Loureiro & Fialho, 2016). Several differentiating characteristics between the low-cost and full-service carriers can be identified. While low-cost carriers provide no-frills services at a low and simplified regime fare, full-service airlines focus on providing a wide range of pre-flight and onboard services in different service classes, employing a

complex pricing structure (Chiou & Chen, 2010; Loureiro & Fialho, 2016; Reichmuth, 2008). The low-cost airlines operate point-to-point routes mostly from secondary airports (without any connections), whereas the full-service airlines operate a hub-and-spoke model, centered around a set of hubs at primary airports. Cost reduction in the case of low-cost carriers also comes from “free seating”, a high density seating configuration, and selling tickets solely online (Reichmuth, 2008). A further difference is in the intense low-cost airlines' use of one type of aircraft, while full-service airlines manage multiple types (Baker, 2013). Some smaller airlines are adopting business models that blend characteristics of both airline types, resulting in “hybrid carriers” (Reichmuth, 2008). Many researchers concur that price is the key decisive factor in choosing a low-cost or a full-service carrier (Anuwichanont, 2011; Dolnicar, Grabler, Grün, & Kulnig, 2011; Martínez-García, Ferrer-Rosell, & Coenders, 2012; Ryan & Birks, 2005), but it is not necessarily nor entirely driving customer satisfaction (Forgas et al., 2010). While low-cost airlines attract consumers on the grounds of value for money, retaining and building loyal customer base remains a great challenge (Rajaguru, 2016). Akamavi, Mohamed, Pellmann, and Xu (2015) even suggest that price is not the decisive factor for customer loyalty to the low-cost airlines. Some authors assert that passengers perceive low fares as a result of efficiency in airline operations rather than diminished service standards (Saha & Theingi, 2009). Given this notion and the fact that

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<http://dx.doi.org/10.1016/j.jbusres.2017.05.015>

Received 20 November 2016; Received in revised form 6 May 2017; Accepted 13 May 2017  
0148-2963/ © 2017 Published by Elsevier Inc.

price is easily imitated by competitors, sustainable competitive advantage should go beyond price (Akamavi et al., 2015).

Scholars and practitioners alike have devoted much attention to understanding service quality in relation to customer satisfaction and loyalty. However, research on the role of various service quality dimensions as antecedents of customer satisfaction with low-cost and full-service carriers offers conflicting results and their relative importance remains unclear (e.g., Chiou & Chen, 2010; Rajaguru, 2016). For example, some authors (e.g., Leong, Hew, Lee, & Ooi, 2015; Loureiro & Fialho, 2016) find no significant moderating role of the airline type, while others (e.g., Mikulić & Prebežac, 2011; Rajaguru, 2016) provide empirical evidence of such interactions. Moreover, only few studies employ rigorous statistical procedures to examine potential differences in passengers' perceptions regarding low-cost and full-service carriers.

To address these issues, the present research aims to investigate the relationships among service quality (as demonstrated through airline tangibles and quality of personnel), customer satisfaction and behavioral intentions and, more importantly, the moderating effects of the airline type on these relationships. The study contributes to the existing literature in several ways. First, it examines the moderating role of the airline type by comparing the proposed theoretical model for customers of low-cost and full-service carriers. In doing so, it attempts to disentangle the strength of two customer satisfaction determinants (airline tangibles and personnel quality) across the low-cost vs. full-service airlines. Few previous studies examine whether differences in service quality dimensions between low-cost and full-service carriers exist (Leong et al., 2015). Second, various researchers have ascertained that customer satisfaction is the strongest determinant of behavioral intention (e.g., Su, Swanson, Chinchanchokchai, Hsu, & Chen, 2016), but conclusions about the strength of the satisfaction-intention relationship in case of low-cost vs. full-service airlines are mixed (e.g., Curras-Perez & Sanchez-Garcia, 2016; Loureiro & Fialho, 2016). Hence, this study contributes to a better understanding of the relationship between satisfaction and behavioral intention by investigating their interaction with the airline type. Third, this research treats behavioral intention as two separate constructs (i.e., intention to repurchase and intention to recommend), overcoming a well-known limitation in many studies, which precludes a thorough investigation of the impact of customer satisfaction on different key performance outcomes (Suhartanto & Noor, 2012; Walsh & Bartikowski, 2013). Finally, not many studies employ solid statistical procedures to investigate the moderating role of the airline type (Loureiro & Fialho, 2016). By using a multi-group analysis, our study provides a rigorous statistical method to assess the extent to which a latent profile solution generalizes across passengers of two different types of airlines (Morin, Meyer, Creusier, & Biétry, 2016).

The remainder of the paper is organized as follows. Following this introduction, we present theoretical grounding based on which the conceptual model and the research hypotheses are developed. Next, we lay out the methodological approach and present an empirical analysis. The paper concludes with a discussion, implications, limitations and suggestions for future research.

## 2. Theoretical foundation and conceptual model development

Despite its extant use in the literature, the concept of customer satisfaction continues to attract attention of academic and business community. A vast majority of satisfaction studies draws on the expectancy-disconfirmation model (Oliver, 1997), which assumes a dynamic relationship between consumers' expectations, perceptions of product or service quality, the confirmation or disconfirmation of these expectations based on the gap between expectations and reality, and, finally, resulting satisfaction.

An overview of the existing literature on customer satisfaction in the airline and other industries indicates that customer satisfaction is closely related to service quality. Service quality refers to customers'

overall impression of the relative inferiority or superiority of the organization and its services (Bitner, Booms, & Mohr, 1994). The airlines that provide more quality services have more satisfied customers and, consequently, more passengers, than the airlines with dissatisfied customers (Khan & Khan, 2013).

Based on the SERVQUAL model, Kim and Lee (2011) identified several dimensions of service quality that have an impact on passenger satisfaction: tangibles, reliability, responsiveness, assurance, and empathy. In addition, an alternative service quality measurement instrument, called the AIRQUAL model (Bari, Bavik, Ekiz, Hussain, & Toner, 2001), has been proposed. Based on the SERVQUAL model, the AIRQUAL model is tailored to the specifics of the airline industry and measures service quality along the following five dimensions: aircraft tangibles, terminal tangibles, personnel, empathy, and image.

Customer satisfaction is an indicator of repeated purchases and word of mouth recommendations (Nadiri, Hussain, Ekiz, & Erdogan, 2008). Many studies confirm that more satisfied customers contribute to higher company profits (e.g., Bernhardt, Donthu, & Kennett, 2000). Furthermore, customer satisfaction is a precursor to increased market share, profitability, positive advertising by word of mouth and customer loyalty (Anderson et al., 1994). While some studies consider behavioral intention as a single multi-faceted construct preceded by customer satisfaction (e.g., Forgas et al., 2010; Rajaguru, 2016), others split it into separate constructs to more precisely capture various company-relevant outcomes, such as word-of mouth behavior and loyalty or repurchase intentions (e.g., Saha & Theingi, 2009; Walsh & Bartikowski, 2013).

The existing literature provides mixed evidence of the relationships between service quality, customer satisfaction and behavioral intentions across the low-cost and full-service airline contexts. For example, Loureiro and Fialho (2016) find that services of low-cost and full-service airlines are perceived similarly by the passengers and are unable to uncover significant differences in relationships between satisfaction and its antecedents as well as between behavioral intentions and their determinants across different airline types. The authors argue that competition has driven full-service airlines to lower their prices and provide similar basic service as low-cost airlines. Similarly, Leong et al. (2015) are not able to identify any differences in the causal relationships between the low-cost and full-service airline contexts.

On the other hand, numerous studies do reveal differences in the strength of relationships among the discussed concepts for the two airline types. Specifically, Suhartanto and Noor (2012) show that customers travelling with full-service airlines are more satisfied than those travelling with low-cost carriers. Further, according to their study, satisfaction with low-cost airline providers is most strongly affected by the accuracy of service, employee behavior and price, while for the full-service airline providers, customer satisfaction is also influenced by the physical appearance of the aircraft. Contrary to Suhartanto and Noor's (2012) finding of higher customers' service quality perceptions in case of the full-service than the low-cost carriers, Baker (2013) found that perceived quality of services higher in case of low-cost carriers. Linked to price, Rajaguru (2016) determined that value for money significantly shapes satisfaction with both airline types, whereas service quality plays a prominent role as an antecedent of satisfaction and behavioral intention only for full-service airlines. The contrasting role of service quality and price has also been highlighted in research by Mikulić and Prebežac (2011), who identify a stronger role of service quality in determining customers' loyalty to full-service carriers and a stronger role of price in determining loyalty to low-cost carriers.

Based on these foundations, the current research proposes a conceptual model depicted in Fig. 1. The underlying premise is that customer satisfaction in the airline industry is positively influenced by airline tangibles and quality of personnel. Furthermore, customer satisfaction influences passengers' intention to repurchase from the airline and recommend the airline. More importantly, the model

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