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The Mediating Role of Perceived Value on the Relationship between Service Quality and Customer Satisfaction: Evidence from Indonesian Airline Passengers

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Abstract

This study aims to investigate the interrelationship among service quality, perceived value and customer satisfaction. The data were collected from 5-star Indonesian Airline from Surabaya and Malang, East Java Province, Indonesia. Two hundred observation was used to test the hypothesis. The data were analyzed by using Confirmatory factor Analysis and Structural Equation Modelling. The results illustrate that perceived value plays a partial mediating role between the service quality and customer satisfaction constructs.

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1. Introduction

As the ASEAN open skies policy applies in 2015, and the airline business competition in ASEAN (Association of South East Asian Nation) countries is increasing. In order to keep up with the tight competition in airline industry, airline practitioners should make sure that they deliver superior quality of service and meet customer satisfaction. Satisfaction is not only regarded as a customer's goal to be obtained as a result of patronizing a service, but also as a firm's goal as a way to the higher customer retention rate and a way to make a profit (Cronin, Brady, &

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Hult, 2000a; McDougall & Levesque, 2000).

Service quality and perceived value are two construct that cannot be separated from customer satisfaction evaluation process. Study on the interrelationship among service quality, perceived value and customer satisfaction have been abundantly conducted (Howat & Assaker, 2013; Park, Robertson, & Wu, 2006; Yu et al., 2014). However, the mediating and moderating effect of perceived value on the relationship between service quality and customer satisfaction is rather neglected (Caruana, Money, & Berthon, 2000). Thus, this study aims to (1) analyze the interrelationship among service quality, perceived value and customer satisfaction, and (2) analyze the mediating and moderating role of perceived value on the relationship between service quality and customer satisfaction.

2. Literature Review and Hypothesis

This study proposes a conceptual model that consists of three constructs, namely service quality, perceived value and customer satisfaction.

2.1. Customer Satisfaction

Holbrook (1994) suggests that customer satisfaction is one of the goals of marketing activity. In accord with Holbrook's suggestion, Kotler & Armstrong (2004) explain that customer satisfaction is an essential element in marketing, or a fundamental concern (Brady & Robertson, 2001; Cronin, Brady, & Hult, 2000b; Tam, 2004b; Williams & Uysal, 2003) since it is important in fulfilling the needs and wants of customers (Churchill & Surprenant, 1982; Han & Ryu, 2009; Kueh & Boo, 2007). Moreover, customer satisfaction is identified as a crucial factor affecting customers' retention rates (Cronin et al., 2000a; Jin, Lee, & Huffman, 2012).

In order to explain customer satisfaction, several theories such as Expectation Disconfirmation, Equity Theory and Comparison-Level Theory can be used (Skogland & Siguaw, 2004; Yi, 1990). Academics (Ekinci, Dawes, & Massey, 2008; Lovelock, Patterson, & Walker, 2001) contend that Expectancy-Disconfirmation Theory is the most essential and it has been accepted widely. This theory covers four elements: expectation, performance, disconfirmation and satisfaction (Lewin, 1938). The expectation construct is a customer's pre-consumption perception associated with goods and services (Barsky & Labagh, 1992) while performance is the foundation of the customer's perception of goods and services (Sinha & DeSarbo, 1998).

2.2. Service Quality

Service quality has been widely acknowledged as an important issue in many industries as it helps a company enhance its profits and also satisfy and retain customers. By providing excellent service quality, a business can create a competitive advantage to distinguish it from other organizations (Buttle, 1996). Thus, research on the measurement of and improvement of service quality, has become essential (Zeithaml & Parasuraman, 2003). However, despite general acknowledgement of service quality's importance, academics have yet to agree on how it should be measured in terms of instruments, dimensions and methods (Brady & Cronin, 2001).

Service quality is defined as the gap between customers' expectations about the service that they have perceived and actually received (Ueltschy & Krampf, 2001; Zeithaml & Parasuraman, 2003). Even though SERVQUAL is widely acknowledge as a service quality measurement, some academics argue that SERVQUAL also has limitations. Thus, some other service quality measurements emerged, such as SERVPERV (Cronin & Taylor, 1992), LODGESERV for hotel industry (Knutson, Stevens, Wullaert, Patton, & Yokoyama, 1990), and the hierarchical model of service quality (Brady & Cronin, 2001). Even though there are numbers of service quality measurement, there is no approach that is superior over others, as measuring service quality should be based on the industry characteristics (Kandampully & Suhartanto, 2003).

Numerous studies of service quality and its consequences have been done since it is a way to create a competitive advantage for a company (Ladhari, 2008; Suhartanto, 2011). Studies have not only identified the service quality measurements but also investigated the consequences of service quality especially the emotional aspect such

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