Factors Affecting Customer Loyalty Towards Airlines Industry in Malaysia: An Exploratory Analysis

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Abstract
Airline companies are making efforts to build long-term relationships with their customers and strategically maintain their airline loyalty. The retention of valuable customers is an essential prerequisite for the industry to achieve a sustainable competitive advantage. To gain further understandings, this research studied the four main factors that affecting customer loyalty in the airline industry: customer satisfaction, perceived value, perceived quality and the corporate image of the airline companies. Perceived quality had the strong positive relationship with customer loyalty, and it was the most significant variable that affected customer loyalty. Satisfaction, perceived value and corporate image had moderate positive relationship on customer loyalty. Suggestions and implications for airline companies have been introduced. Airlines industry meeting customers’ needs and wants by reducing the gaps between customer expectation and customer perception to gain sustainable competitive advantage among their competitors.

Keywords: Customer Loyalty, Customer Satisfaction, Perceived Value, Perceived Quality, Corporate Image

INTRODUCTION

The purpose of this research is to improve the understanding of customer loyalty towards airlines industry. The decision making process for a customer in choosing an airlines can be affected by many variables such as perceived value, corporate image of airlines, customer satisfactions and perceived quality. While having to manage all those challenges, airlines are always facing strong competition. One way to strengthen an airline firm’s competitive position is to retain customers as loyal users of their airlines. Loyal customers not only increase the value of business, but also enable to maintain costs lower than those associated with attracting new customers. Customer loyalty has become a key factor for success in the service industry. In such a highly competitive market, service providers in many industries have discovered the importance of customer retention.

Identified as one of the more intangible service industries (Clemes et al., 2008), airline industry plays an important role in the global economy (Tiernan et al., 2008) but none of them are in the hand of airlines control. The recent world economic downturn in 2008/2009 has had a hit on the market of business travel and also aviation industry. As a result, the aviation industry worldwide, experiences an increasing popularity of the low cost airlines. This popularity is magnified with
the adoption of deregulation practices in the airline industry by many countries (Clemes et al., 2008; Saha and Theingi, 2009).

There are numerous international airlines that take visitors and travelers to Malaysia from all major parts of the globe. Despite the many operators of airlines, the airline industry in Malaysia is monopolized by two main operators -- Passenger airline and Cargo airlines. There is a fierce competition among the airline service providers who are always looking to extend their services and are always challenging their own limits. The main passenger airlines in Malaysia are Air Asia, Eaglexpress, Berjaya Air which is owned by Berjaya Group, Malaysia Airline System Berhad (MAS), Firefly which is owned by MAS, Layang-Layang Aerospace which is a regional-chartered airline based in Sabah that provide air services to Layang-Layang Island, and Malindo Air which is a planned airline between Malaysia’s National Aerospace and Defense Industries (NADI) and Lion Air of Indonesia. Cargo airlines that operate in Malaysia are Athena Air Services, MASkargo, Transmile Air Services and Neptune Air.

Problem Statement
In a highly competitive environment, customer loyalty has become an increasingly effective means for securing a firm’s profitability, Reichheld&Sasser, 1990; Reinartz& Kumar, 2002. In the airline industry, profitability of airline companies has always been challenged by a number of external factors.

According to Doganis (2006), running airlines profitable has always been a great challenge. In addition to intense competition diminishing airlines’ profits, airlines are exposed to market volatility, legal regulations restricting operations, and a disadvantageous cost structure with high fixed costs (Delfmann et al., 2005; Shaw, 2007).

New competitors are being encouraged to enter the market due to the ongoing deregulation and liberalization of airline industry over time. Low-cost carriers such as AirAsia are slowly taking over the cost leadership in the aviation industry in Malaysia. Whereas, traditional network carriers such as MAS typically pursue a service differentiation strategy, are struggling to make profit or facing bankruptcy. Recent 2014 crisis on MAS gives a negative impact on their reputation and image. The disappearance of Malaysia Airlines Flight MH370 will add to the growing financial problems at the country’s state-run carrier, which is already mired in steep losses, (Joanneet al., 2014).

In the meantime, airline services are focusing more towards their marketing strategies to retain their profitable customers in this highly competitive landscape by offering more sales discounts and promotions. Although they have lent themselves to a relationship marketing approach, many of the customer-related efforts of airlines center around loyalty programs that aim to increase short-term sales instead of focusing on long-term quality relationships between the airline and its customers (Bejou& Palmer, 1998).

The logic of such a short-term perspective is questionable when considering the number of challenges facing the airline industry, including intense competition; the fact that the demand for air transport has decreased during the past few years due to a global economic decline (Fodness& Murray, 2007).
Research Objectives

- To explore the relationship between satisfaction and customer loyalty in airline industry in Malaysia
- To discover the relationship between perceived value and customer loyalty in airline industry in Malaysia
- To identify the relationship between perceived quality and customer loyalty in airline industry in Malaysia
- To discover the relationship between corporate image and customer loyalty in airline industry in Malaysia

Research Questions

- What is the relationship between the factors of satisfaction towards customer loyalty in airline industry in Malaysia?
- What is the relationship between the factors of perceived value towards customer loyalty in airline industry in Malaysia?
- What is the relationship between the factors of perceived quality towards customer loyalty in airline industry in Malaysia?
- What is the relationship between the factors of corporate image towards customer loyalty in airline industry in Malaysia?

Theoretical Framework

According to Figure 1, which is adapted from research conducted by Adreassen and Lindestad (1998) customer loyalty was the dependent variable. Satisfaction, perceived value, perceived quality and corporate image were the independent variable. The main idea behind this study is to identify the impact of each variable on customer loyalty and what kind of relationship that they had and which variable was the most significant factor on customer loyalty.
Research Hypothesis

H₁: There is a significant relationship between satisfaction and customer loyalty in airline industry in Malaysia.
H₂: There is a significant relationship between perceived value and customer loyalty in airline industry in Malaysia.
H₃: There is a significant relationship between perceived quality and customer loyalty in airline industry in Malaysia.
H₄: There is a significant relationship between corporate image and customer loyalty in airline industry in Malaysia.

LITERATURE REVIEW

Customer Loyalty
The globalization of competition, saturation of markets and development of information technology have enhanced customer awareness and created a situation where long-term success is no longer achieved through optimized product price and qualities. Nowadays, without the awareness of consumer behavior and correct understanding of it, it is impossible for companies to take appropriate measures to meet their customers’ needs and wants. How to build good relationship with customers becomes more and more important. Customer loyalty is often recognized as being a strategic objective for firms and it is a critical aspect for firms. At a very general level, customer loyalty is the feeling of the attachment or affection for a company’s people, products or services (Jones and Sasser, 1995). The most comprehensive definition of customer loyalty is from Oliver (1999). He stated that customer loyalty is a deeply held commitment to rebuy or re-patronize a preferred products or services consistently in the future. Loyalty of a firm’s customers has been recognized as the dominant factor in a business organization’s success and sustainability.

Customer Loyalty towards Airline Industry in Malaysia
Since airline companies are very concerned about customer loyalty, they need to review and reexamine their strategies not only to sustain customer loyalty but also to remain competitive. Natalisa and Subroto (2003) suggested that domestic airline operators need to honor promises made in their promotional and external communication materials. Due to the dynamic environment and increasing demand of better service from the customer, it is a must for airline to provide excellent service and focus on continuing improvement, so that they can remain the uniqueness of their services and create more competitive advantages than the competitors. Continuous training activities should also be provided to frontline operators, in addition to developing various kinds of loyalty programs to ensure continued customer loyalty. Chin (2002) stated that an attractive frequent flier program could actually contribute to increased loyalty from the repeat business of an increased number of customers. In addition, Dick and Basu (1994) suggested that reliability and confidence might encourage loyalty to the service provider. Customer loyalty is very important for the survival of service provider companies.
Satisfaction
Achieving customer satisfaction has long been identified as the key to customer loyalty (Anderson and Sullivan, 1993), and it is thus no surprise that service providers seek to manage and increase satisfaction (Bolton, 1998). Customer satisfaction is the key factor determining how successful the organization will be in customer relationships (Reichheld et al., 1996), therefore, it is very important to measure those factors. Airlines have been one of the leading industries in the development of relationship marketing strategies (Bejou and Palmer, 1998). Satisfaction is a key factor in formation of customer’s desires for future purchase (Mittal & Kamakura, 2001). It is an overall attitude that is based on customer experience. Kotler and Armstrong (1996) define customer satisfaction as “a person’s feeling of pleasure or disappointment resulting from comparing a product or service’s perceived performance in relation to his or her expectation (Kotler, 2003). Therefore, satisfaction is closely related to consumers’ expectation and experience. Real customer satisfaction, therefore, represents the difference between what customers actually expect to get and the actual service performance exceeding such expectations. Customer satisfaction depends on a variety of factors, including perceived service quality, customer’s mood, emotions, social interactions and other experience-specific subjective (Rust and Oliver, 1994).

Perceived Value
Customer perceived-value is defined as the perception about quality, social psychology, benefit and money (Bishop, 1984; Velimirović, et al., 2011). Dodds and Monroe (1985) mentioned that perceived value is an important factor in consumer’s purchasing decision process and consumers will buy a product with high perceived value. Dodds and Monroe (1985) and Zeithaml (1988) contended that consumers will evaluate what they give and what they get in their subjective perception when they are buying a product or service. According to Utility Theory, the probability of purchase intention will increase when customers acquire more benefits than they pay for a product (Dickson and Sawyer, 1990). There is also positive association found between consumer perceived value and customer loyalty (Yang & Peterson, 2004; Sirdeshmukh et al. 2002).

Perceived Quality
Perceived quality is simply the overall customer’s assessment of the standard process of receiving customer services (Hellier, et al, 2003). Some experts believe that the perceived quality is the extent of compliance rate between perceived performance and customer expectations (Athiyaman, 1997; Bejou, et al ’96). Some other researchers take the perceived quality as the result of satisfaction (Anderson and Sullivan, 1993). Store brand image can be impressed positively by perceived quality (Zins, 2001; Selnes, 1993). Consumer also often judges the quality of a product or service on the basis of a variety of informational cues that they associate with the product. Some of these cues are intrinsic to the products, whereas others are extrinsic. Perceived quality has direct impact on customer purchase decision and brand loyalty, especially during the time customers have less or no information of the products that they are going to purchase (Aaker, 1991; Armstrong and Kotler, 2003).
Corporate Image

Corporate image is defined as the perception of an organization in the customers’ minds, referring to the brand and the kind of associations that customers obtain from a brand, goods, service and/or organization (Nguyen & LeBlanc, 2002). The concept of the corporate image came to existence during 1950s and 1960s, but scholars have focused the center of their research on corporate brands in recent years (Balmer and Greyser, 2006). Walters (1978) suggested that while corporate image covers a substantial amount of factors, as far as consumers are concerned, the most essential aspects may be summarized into organizational image, functional image and merchandize image. Nguyen and LeBlanc (2002) believe that factors that constitute corporate image might have originated from customers’ awareness of corporations as physical entities and their behaviors, including corporation name, tradition, management philosophy, diversification of products and so forth. Park et al. (2006) found that airline image has a significant direct effect on airline customers’ future behavioral intentions. Investigating antecedents of customer loyalty in the commercial airline industry, Zins (2001) identified corporate image to have the strongest influence on customer loyalty. Andreassen and Lindestad (1998) investigated the influence of corporate image on perceived quality, customer satisfaction, and loyalty in the Norwegian package tour industry and found corporate image to have an impact on all three constructs.

METHODOLOGY

Research Design

Research design is a work plan that ensures the evidence obtained to allow the researchers to answer each of the research questions as clearly as possible (DeVaus, 1991). In this research, the variables included satisfaction, perceived value, perceived quality and corporate image. Under the quantitative research approach, researchers selected descriptive study as the research purpose. Descriptive study was undertaken to find out and describe the characteristics of variables of interest in a situation (Sekaran & Bougie, 2011). Therefore, in this research, the goal of descriptive study offered the researchers a profile about the personal information when choosing airlines services in Malaysia.

Population and Sampling Method

The population of the current survey is comprised of those who have actually experience airline services offered by the aviation industry, specifically air travelers. The study of loyalty towards an airline will be based on individual manner. In this study, there were 400 questionnaires distributed to 400 respondents. Sampling technique of non-probability sampling was chosen in the sample's collection.

Data Analysis

In this study, researchers used descriptive statistics to better understanding about demographic profile of respondents and test the level of respondent's understanding towards satisfaction, perceived value, perceived quality, corporate image and customer loyalty.

Reliability

In this study, the researchers used SPSS to run reliability test on the study variables which involved satisfaction, perceived value, perceived quality, corporate image and customer loyalty.
FINDINGS

Reliability Test

<table>
<thead>
<tr>
<th>Variables</th>
<th>Cronbach’s Alpha</th>
<th>Number of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction</td>
<td>0.783</td>
<td>4</td>
</tr>
<tr>
<td>Perceived Value</td>
<td>0.775</td>
<td>4</td>
</tr>
<tr>
<td>Perceived Quality</td>
<td>0.858</td>
<td>4</td>
</tr>
<tr>
<td>Corporate Image</td>
<td>0.724</td>
<td>4</td>
</tr>
<tr>
<td>Customer Loyalty</td>
<td>0.711</td>
<td>4</td>
</tr>
</tbody>
</table>

Table 1: Cronbach’s Alpha

As shown in Table 4.1, all the variables of the research were accepted as the Cronbach’s Alpha for each of the variables was above 0.700. There is a pleasant internal consistency among the items with in the questionnaire as long as its value exceeds 0.700 which fulfill the guidelines adopted from Sekaran and Bougie(2011). In other words, there liability of the data collected from those items to measure the variables in this research were acceptable.

Demographic Profile

<table>
<thead>
<tr>
<th>Nationality</th>
<th>Frequency (n)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>274</td>
<td>92.6</td>
</tr>
<tr>
<td>Africa</td>
<td>16</td>
<td>5.4</td>
</tr>
<tr>
<td>Europe</td>
<td>1</td>
<td>0.3</td>
</tr>
<tr>
<td>America</td>
<td>4</td>
<td>1.4</td>
</tr>
<tr>
<td>Oceania</td>
<td>1</td>
<td>0.3</td>
</tr>
<tr>
<td>Total</td>
<td>296</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 2: Nationality

According to table 4.2.3, most of respondents were from Asia, which gain 92.6%. Respondents from Africa gained the second highest percentage which is 5.4% (16 respondents), and it followed by respondents from America, which is 1.4% (4 respondents). The rest from Europe and Oceania gained 0.3% for each.

Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.049</td>
<td>.564</td>
<td>.087</td>
<td>.931</td>
</tr>
<tr>
<td>Satisfaction</td>
<td>.182</td>
<td>.042</td>
<td>.191</td>
<td>4.342</td>
</tr>
<tr>
<td>Perceived Value</td>
<td>.228</td>
<td>.039</td>
<td>.247</td>
<td>5.898</td>
</tr>
<tr>
<td>Perceived Quality</td>
<td>.403</td>
<td>.037</td>
<td>.438</td>
<td>10.784</td>
</tr>
<tr>
<td>Corporate Image</td>
<td>.165</td>
<td>.046</td>
<td>.152</td>
<td>3.602</td>
</tr>
</tbody>
</table>

Table 3: Coefficients
Hypothesis

*H₁*: There is a significant relationship between satisfaction and customer loyalty in airline industry among international students in Malaysia.

According to the result of correlation between satisfaction and customer loyalty, r value=0.653, which means there is a moderate positive relationship between the set variables. Besides, in multiple regression analysis, the p-value=0.000, which is less than 0.05, indicate that the correlation is relevant and the set variables are linearly related. So H₁ is accepted, which means there is a significant relationship between satisfaction and customer loyalty in airline industry among international students in Malaysia. However, satisfaction is not the most significant factor that affects customer loyalty. According to multiple regression analysis, researchers found out that satisfaction was the 3rd significant variable on customer loyalty.

*H₂*: There is a significant relationship between perceived value and customer loyalty in airline industry among international students in Malaysia.

According to the result of correlation between perceived value and customer loyalty, r value=0.644, which means there is a moderate positive relationship between the set variables. Besides, the p-value=0.000, which is less than 0.05, indicate that the correlation is relevant and these two variables are linearly related. So H₂ is accepted, which means there is a significant relationship between perceived value and customer loyalty in airline industry among international students in Malaysia. However, perceived value is not the most significant factor that affects customer loyalty. According to multiple regression analysis, researchers found out that perceived value was the 2nd significant variable on customer loyalty.

*H₃*: There is a significant relationship between perceived quality and customer loyalty in airline industry among international students in Malaysia.

According to the result of correlation between perceived quality and customer loyalty, r value=0.736, which means there is a strong positive relationship between these two variables. Besides, the p-value=0.000, which is less than 0.05, indicate that the correlation is relevant and these two variables are linearly related. So H₃ is accepted, which means there is a significant relationship between perceived quality and customer loyalty in airline industry among international students in Malaysia. According to multiple regression analysis, further more, it also showed the perceived quality is the most significant factor that affected customer loyalty.

*H₄*: There is a significant relationship between corporate image and customer loyalty in airline industry among international students in Malaysia.

According to the result of correlation between corporate image and customer loyalty, r value=0.620, which means there is a moderate positive relationship between these two variables. Besides, the p-value=0.000, which is less than 0.05, indicate that the correlation is relevant and these two variables are linearly related. So H₄ is accepted, which means there is a significant relationship between corporate image and customer loyalty in airline industry among international students in Malaysia.
international students in Malaysia. According to multiple regression analysis, researchers find out that corporate image was the 4th significant variable on customer loyalty.

**Conclusion**

As the knowledge of the researcher, there has not been much research conducted to examine the customer loyalty model adopted from Andreassenband Lindestad (1998) for airline industry. If the research finds out that there is a significant relationship, this means that we will know factors have impact on airline customer loyalty. Thus, airline industries will be more aware of the different kinds of factors that will help to achieve customer loyalty. Customer's loyalty is important to any airline in term of enhancing their profit. Without customers it's impossible for the air industry to enhance or grow. Theoretically, this study, the researcher hopes that a linkage will show between customer satisfaction, perceived value, perceived quality and corporate image with customer loyalty.
REFERENCES


