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ANTECEDENTS OF BRAND LOYALTY IN THE COMMERCIAL AIRLINE INDUSTRY: A STUDY ON THE MALAYSIAN CONTEXT

BY

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A thesis submitted in fulfilment of the requirement for the degree of Master of Science in Marketing

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ABSTRACT

Building and maintaining long-term relationship with customers is a key element of the relationship marketing philosophy, this requires an understanding of the customer-firm interaction. The concept of brand loyalty can be employed to emphasis the attitudinal and behavioural aspects of this relationship. This study aims to investigate the antecedents of brand loyalty in the conventional airline industry in Malaysia and gain an understanding of the dimensions of brand loyalty. Moreover, it investigates the impact of customer satisfaction, service quality, perceived value and brand image on brand loyalty. In addition to this, the study follows the composite approach and proposes that brand loyalty consists of a behavioural dimension and attitudinal dimension. The questionnaire data was collected from 327 airline passengers travelling from and to Malaysia. Two-stage Structural Equation Modelling (SEM) was followed to test the research model and hypotheses of this study. Therefore, the analysis of data showed that the two dimension model of brand loyalty was significant indicating that brand loyalty consists of attitudinal and behavioural dimensions. Furthermore, it was found that there were significant relationships between the variables except for four paths. The four insignificant paths were the relationship between 'service quality and attitudinal loyalty', 'airline image and customer satisfaction', ' service quality and attitudinal loyalty through customer satisfaction' and 'airline image and attitudinal loyalty through customers satisfaction'. The results of testing the structural model also indicated that customer satisfaction mediates the relationship between perceived value and brand loyalty.

خلاصة البحث

تُعتبر استراتيجية بناء علاقات طويلة الأمد مع العملاء من أهم الإستراتيجيات التسويقية للشركة كما يشكل هذا المفهوم عنصرا أساسيا في فلسفتها التسويقية ، وهذا يتطلب فهما دقيقا لطبيعة العلاقة بين العميل و الشركة. في هذا السياق يمكن إستخدام مفهوم ولاء الزبون للعلامة التجارية كإطار لفهم طبيعة هذه العلاقة و تبيان جوانبها و أبعادها. تهدف هذه الدراسة إلى تحديد أهم العوامل المؤثرة في ظاهرة ولاء الزبائن للعلامات التجارية لشركات الطيران التجاري في ماليزيا. بالإظافة إلى ذلك ، تبحث الدراسة تأثير كل من عوامل: رضا العملاء، جودة الخدمة، إدراك الزبون لقيمة الخدمة و كذا صورة الشركة لدى الزبائن في ظاهرة الولاء. بناءا على الأهداف المسطرة للدراسة تمَّ وضع إطار منهجي لإختبار العلاقات الإفتراضية بين العوامل المدمجة في النموذج الإحصائي. الدراسة تبنّت المقاربة التركيبية في إختبار ظاهرة الولاء لدى الزبائن و التي تفترض أن مفهوم الولاء له بعدين متكاملين وهما الولاء الموقفي و الولاء السلوكي. بهدف إختبار النموذج الإحصائي المقترح من خلال هذه الدراسة تمَّ إنتقاء عيِّنة تتكون من *327* مسافرا لدى شركات الطيران التجاري الناشطة في ماليزيا، و بإتباع أسلوب نمذجة المعادلة الهيكلية *(SEM)* تمَّ إختبار فرضيات الدراسة الإثني عشر. لقد أظهرت نتائج تحليل البيانات أن فرضيّة الهيكلة الثنائية لمفهوم الولاء سليمة و أن عنصر الولاء يتكون من بعد موقفي و آخر سلوكي، كما أثبتت النتائج أن كلاًّ من عوامل: رضى الزبون، إدراك الزبون لقيمة الخدمة و كذا صورة الشركة لدى الزبائن لها تأثير مهم و أساسي في تحديد مدى ولاء الزبون للعلامة التجارية لشركة الطيران، كما توصَّلت الدراسة الى أن عنصر رضى الزبون يمثل عامل وسيط و له تأثير مهم في العلاقة بين إدراك الزبون لقيمة الخدمة و ظاهرة ولاء الزبون من جهة أخرى.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science in Marketing.

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………………………………….

Dean, Kulliyyah of Economics
and Management Sciences

DECLARATION

I hereby declare that this dissertation is the result of my own investigation, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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Signature.............................. Date…………………………

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Signature   Date

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LIST OF ABBREVIATIONS

AMOS	Analysis of Moment Structure
ASV	Average Shared Variance
AVE	Average Variance extracted
CFA	Confirmatory factor Analysis
CFI	Comparative Fit Index
CR	Critical Ratio
EFA	Exploratory factor Analysis
FFP	Frequent Flyer Program
IATA	International Air Transport Association
KLIA	Kuala Lumpur International Airport
ML	Maximum Likelihood
MSV	Multiple Shared Variance
RMSEA	Root Mean Square Error of Approximation
SEM	Structural Equation Modeling
SPSS	Statistical Package for Social Science
TLI	Tucker-Lewis Index

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Today, numerous airlines in the world are facing bankruptcy risk, and struggling to make profits. Running airlines profitably has always been a great challenge (Doganis, 2006). In addition, the airline market is exposed to an intensive competition which threats companies' profits; the airline industry also is characterized with high market instability, legal regulations which restrict airline operations, and a disadvantageous cost structure (Shaw, 2011). In 2010 the CEO of the International Air Transport Association (IATA), Giovanni Bisignani, stated that *"The last decade was the most difficult that we have ever faced. Airlines lost an average of US$5 billion per year"*. He further claimed that, the airline business is challenged by a number of external factors such as: increasing oil prices, the danger of over-capacity, terrorism threats, restrictive government regulations, as well as natural disasters, such as the 2010 volcano eruption in Iceland. Whilst managing all these challenges, airline companies are always facing strong competition, more so since the appearance of low cost carriers (Dolnicar, Grabler, Grün, & Kulnig, 2011).

In December 2011, Malaysia Airlines' deputy group chief executive officer, Mohammed Rashdan Yusof declared that *"The market environment remains very challenging for Malaysia Airlines, given the increased competition from low cost and full service carriers, overcapacity in the Asian aviation sector, high fuel cost and the volatile global economy"*(M. R. Yusof, 2011). Similarly, the chairman of Malaysia Airlines Tan Nor Yusof reported that his company experienced a significant net loss of RM2.5 billion in 2011, this happened when airlines globally and conventional airlines in particular are facing the challenges of deep competition, increasing fuel costs (M. N. Yusof, March 2012). In such a highly competitive environment, customer loyalty has become an increasingly effective means for securing and maintaining firm's profitability (Reinartz & Kumar, 2002). Oliver (1999) defines customer loyalty *as " a deeply held commitment to rebuy or re-patronize a preferred product or service consistently in the future, causing repetitive same brand or same brand-set purchasing, despite situational influences and marketing efforts".*

Gaining and sustaining customer loyalty had become the ultimate goal of businesses in the relationship marketing theory, and it could be more significant than satisfying customers or delivering high service quality (Agustin & Singh, 2005b). In addition, building and maintaining loyalty with customers is important for the sustainability of a company in today's competitive milieu (McMullan & Gilmore, 2008). In addition to its differentiation value, loyalty programs based on emotional attitude could play a significant role in increasing the business performance (Keiningham, Aksoy, & Cooil, 2008). As, loyal consumers would not search for information about alternative products, thus reducing the probability of customer switching or customer defection (Gounaris & Stathakopoulos, 2004). Businesses focus their effort and resources more on loyal customers since this category of clients are less price sensitive and cost less for the firm to communicate with (Gómez, Arranz, & Cillán, 2006).

Millions of people are in some way affected by the airline industry in today business milieu. Studies related to the airline services have been the main issue of many researchers (Y. K. Kim & Lee, 2011). Moreover, customer loyalty research is challenging, this is owing to the structure of the concept of customer loyalty and difficulty to determine its antecedents (Back & Parks, 2003). This in particular is associated to the characteristics of the service which have been determined by Parasuraman, Zeithaml, & Berry (1985) as: (1) service intangibility, the assessment of services does not rely on the customer's five senses and their assessment could not be done before they are being purchased and consumed, (2) service inseparability, the service is naturally being produced and consumed concurrently, (3) service perishability, services cannot be stored, resold, or returned back to the provider, and (4) service variability, services are highly variable and difficult to be standardized as they depend on the service provider. In short, brand loyalty is an important strategy to develop a sustainable competitive advantage for any business (Gounaris & Stathakopoulos, 2004) including the airline industry (Forgas, Palau, Sánchez, & Huertas-García, 2012).

1.2 PROBLEM STATEMENT

With the objective of improving customer loyalty and increasing profitability, many airlines introduced loyalty schemes in the 1980s and 1990s. These schemes, known as frequent flyer programs (FFP), they award passengers for flights taken with the given airline. While these programs attract a great number of airline customers, it is uncertain whether such programs truly lead to customer loyalty based on a positive attitude and preference for the brand. Critics assert that the reason why customers repurchase a ticket to travel with a given airline rests solely on the rational and economic benefits of loyalty program offered by airlines (Plimmer, 2006). Given the uncertainty surrounding the effect of frequent flyer programs on creating and maintaining customer loyalty, other drivers of customer loyalty in the airline industry must be considered. Several studies on the factors that determine customer loyalty have been carried out (Dolnicar et al., 2011; Forgas, Moliner, Sánchez, & Palau, 2010; Park, Robertson, & Wu, 2006; Zins, 2001). This study however, takes a different approach and argues that the consideration of the dynamics that result from customer-brand relationships can generate new knowledge on how customer loyalty can be created and maintained in the context of the airline industry.

Pervious loyalty researches have conceptualised loyalty in three different approaches. Firstly, customer loyalty has been defined as behaviour (repetitive buying). Secondly, loyalty was defined as an attitude (positive intention to buy), and then the concept of brand loyalty was defined in one composite approach which incorporated the first two conceptualisations. But, Oliver (1999) challenged the composite conceptualization and claimed that the two dimensions of behavioural and attitudinal loyalty still not satisfactory to describe the complexity and dynamics aspects of brand loyalty. There has been consensus among scholars on the shortfall of the composite approach in terms of its applicability to assist managers to establish effective loyalty programs (J. Kim, Morris, & Swait, 2008). Oliver‘s (1997, 1999) work was the first to propose a multi-dimensional brand loyalty consisting of: cognitive loyalty, affective loyalty, conative loyalty, and behavioural loyalty. According to Harris and Goode (2004), Oliver‘s multi-dimension approach is deemed one of the most accurate conceptualization of brand loyalty. However, there exist only few empirical studies which examined this approach (Jones & Taylor, 2007).

Uncertainty still surrounding the issue of what dimensions should be considered to measure brand loyalty, and what is the nature of the relationship between these dimensions. Without such an understanding, companies generally and airlines in particular could not assess the appropriate factors or criteria in order to distinguish loyal clients from disloyal clients and therefore, they will fail to fairly reward their loyal clients when implementing loyalty programs (Jones & Taylor, 2007). While, this subject has been the main issue in many studies , the main antecedents of brand loyalty in prior studies have been customer satisfaction, service quality, perceived value and brand image (Park et al., 2006). These service evaluation constructs are considered the cornerstones for creating brand loyalty (Lovelock & Wirtz, 2010). Previous loyalty studies found these constructs to have relationships with customer loyalty when integrated in models of service evaluation processes (Chitty, Ward, & Chua, 2007). However, the findings of these studies tend to be overlapping, as few are the researches that simultaneously examined the impact of these constructs on customer loyalty (Cronin, Brady, & Hult, 2000). Touzani and Temessek (2009) argue that there is lack of studies which examine several determinants of brand loyalty simultaneously in one integrative model. Therefore, the adoption of an approach which combines both behavioural and attitudinal dimensions of brand loyalty will assist in understanding significance and effect of each factor in creating brand loyalty.

This gap in literature requires researchers to examine concurrently the effect of these constructs on brand loyalty in the airline context. Therefore, the objective of this research is to propose and examine a conceptual model which takes into account different prerequisites factors of brand loyalty and integrates both behavioural and the attitudinal dimension.

1.3 RESEARCH QUESTIONS

This study attempts to provide answers to the following research questions:

1.3.1 What are the main dimensions of brand loyalty and the structure of their interrelations in building brand loyalty?

1.3.2 What are the drivers of brand loyalty in the airline industry?

1.3.3 How can a robust model improve the measurement of brand loyalty in the airline industry?

1.3.4 Does attitudinal brand loyalty lead to behavioural brand loyalty?

1.3.5 Do customer satisfaction, service quality, brand image and customer perceived value have impact on passenger loyalty?

1.3.6 What is the impact of customer satisfaction on the relationship between service quality, customer perceived value, brand image and attitudinal loyalty?

1.4 OBJECTIVE OF THE STUDY

1.4.1 General Objective of the Study

This research in general seeks to gain an insight into the structure and drivers of passenger loyalty towards airline companies in Malaysia. Specifically, the study will identify and test in an integrative and comprehensive conceptual model the antecedents of brand loyalty in the airline context, and simultaneously measure the impact of these variables on brand loyalty. Further, this study will attempt to investigate and measure the effect of mediating variables in the relationship between brand loyalty and several service constructs integrated in the research model.

1.4.2 Specific Objectives of the Study

This research has seven specific objectives:

1. To identify the dimensional structure of brand loyalty in the airline industry.

2. To develop and validate a comprehensive structural model which measures brand loyalty and captures the interrelationships among different service constructs investigated in this study.
3. To identify key drivers of passenger loyalty in the airline industry.
4. To examine the relationship between attitudinal loyalty and behavioural loyalty in the airline context.
5. To identify the impact of customer satisfaction, service quality, perceived value and brand image on attitudinal loyalty.
6. To investigate the interrelationship between service quality, perceived value, brand image and customer satisfaction.
7. To examine the mediating effect of customer satisfaction on the relationships between service quality, perceived value, brand image and attitudinal loyalty.

1.5 SIGNIFICANCE OF THE STUDY

Having satisfied the research objectives specified in the preceding section, this study will contribute to the loyalty researches from two sides (academic and managerial). From theoretical side, the present study will add to the body of knowledge on brand loyalty and air transportation management. In addition, this study will propose and examine a comprehensive model which incorporates the dimensions and factor antecedents of brand loyalty in the airline context. The present study also examines simultaneously in a structural model the nature of relationships among several key service constructs: customer satisfaction, service quality, perceived value, brand image, and brand loyalty (including attitudinal and behavioural dimensions). Finally, this research will also extend the body of knowledge on brand loyalty and provide a new view for the loyalty concept in a developing country (i.e. Malaysia) since the majority of previous studies on brand loyalty have been done in developed countries.

From a managerial side, the present study will assist managers of conventional airlines in different directions. It will guide airline managers to gain an understanding on how passengers develop loyalty towards a particular airline brand and the main factors behind this phenomenon. This research will also explain the nature and significance of the relationship between several marketing constructs (i.e. customer satisfaction, service quality, perceived value and brand image) and the construct of brand loyalty. Thru reaching this goal, airline managers will have the ability to target specific service variables for improvement, and develop specific promotional strategies. This in turn will increase the likelihood of positive customer attitudes towards the brand and their intention to buy, and ultimately will retain their current customers and attract potential clients.

1.6 CONCEPTUAL DEFINITIONS

1.6.1 Brand loyalty: *"A deeply held psychological commitment to re-buy or re-patronise a referred product/service consistently in the future, thereby causing repetitive same brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behaviour."* (Oliver, 1999, p. 34).

1.6.2 Behavioural loyalty: *"a customer's overt behaviour toward a specific brand in terms of repeat purchasing patterns."*(Back & Parks, 2003).

1.6.3 Attitudinal loyalty: *"A degree of dispositional commitment in terms of some unique value association with the brand"* (Chaudhuri & Holbrook, 2001).

1.6.4 Service quality: *"The consumer's judgment about a product's overall excellence or superiority"* (Zeithaml, 1988).

1.6.5 Perceived value: *"The consumer's overall assessment of the utility of a service based on perceptions of what is received and what is given"* (Zeithaml, 1988).

1.6.6 Customer satisfaction: *"Consumer's response to the evaluation of the perceived discrepancy between prior expectation and the actual performance of the product as perceived after its consumption"* (Tse & Wilton, 1988).

1.6.7 Brand image: *"Perceptions about a brand as reflected by the brand associations held in consumer memory"* (Keller, 1993).

1.7 ORGANIZATION OF THESIS

The present study comprises of five chapters, chapter one presents the issues related to the topic under examination, it starts with an introduction of the topic, followed by the problem statement, research questions, research objectives and significance of the study. Chapter two presents a review of previous studies on brand loyalty and how loyalty studies developed from uni-dimensional approach to multi-dimensional approach; in section two we discuss the relationship between loyalty and its factor antecedents. The last section discusses the research gap and the proposed research model followed by statements of hypotheses developed in this research in the end of the chapter.

Chapter three discusses the methodology followed to test the research hypotheses developed in chapter two. This methodology commences with research design, data collection and data analysis including Structural Equation Modelling

(SEM). Chapter four presents the research findings as well as the analysis and interpretation of results. In chapter five which is the final chapter, we will discuss the results obtained from testing the research hypothesises and its implications for airline companies followed by limitations and further suggestions for future studies.