



THE INFLUENCE OF SERVICE QUALITY AND  
CONSUMPTION EMOTIONS ON CUSTOMER  
RETENTION IN AIRLINE INDUSTRY

BY

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## **ABSTRACT**

Customer retention seems to be a matter of great concern to many companies especially in service sectors. Particularly, the importance of customer retention is highlighted since the competition among the businesses is growing and acquiring new customers is very expensive. For the airline industry, customer retention has become critical as companies are struggling with many challenges, mainly stiff competition, apart from other issues such as terrorism and accidents. Those issues have caused customers to keep switching from one airline to another. Thus, based on Mehrabian and Russell model, this study has sought to examine to what extent the customer retention in the airline industry can be influenced of by service quality, positive and negative consumption emotions. Accordingly, using purposive sampling method, the respondents for this study are passengers who have travelled using national airlines within the past twelve months. Through self-administered questionnaire, 218 questionnaires were usable for analysis which was performed using SPSS and PLS-SEM. The findings show that there is positive and significant relationship between service quality and customer retention, between service quality and positive consumption emotion; and between positive consumption emotion and customer retention. In addition, result also shows that there is a negative relationship between service quality and negative consumption emotion as well as between negative consumption emotion and customer retention. Further, among service quality, positive consumption emotion and negative consumption emotion; positive consumption emotion has the most influence on customer retention. The findings of this study provide valuable implications and contributions from the both managerial side and academic perspective.

## ملخص البحث

لقد أصبحت قضية الاحتفاظ بالعميل من الأهمية بمكان بالنسبة لجميع الشركات وخاصة في قطاع الخدمات. وقد تم تسليط الضوء بشكل خاص على أهمية الاحتفاظ بالعميل بسبب ازدياد حدة المنافسة في قطاع الأعمال، وأيضاً لأنّ الحصول على عملاء جدد مكلف للغاية. وبالنسبة لشركات الطيران فقد أصبح الاحتفاظ بالعميل أمراً مهماً للغاية؛ لأنّ تلك الشركات تعاني - بشكل رئيسي - من العديد من التحديات من المنافسين، بالإضافة إلى الحوادث والإرهاب. وقد أدّت هذه القضايا إلى تحوّل وجهة العملاء، وبالتالي انتقال العميل من شركة طيران إلى أخرى. وقد اعتمدت هذه الدراسة على نموذج "محرابيان" و "راسل"، من أجل معرفة إلى أيّ مدى يمكن المحافظة على العملاء لدى شركات الطيران، وكيف يمكن أن تتأثر تلك المحافظة على عملاء بجودة الخدمة، والعواطف أو الشعور سلباً أو إيجاباً. وبناء على ذلك فقد تمّ استخدام طريقة انتقاء العينة (المقصودة)، وبالتالي فإنّ المشاركين في هذه الدراسة هم مجموعة من الركاب الذين سافروا باستخدام شركات الطيران الوطنية في الاثني عشر شهراً الماضية. وذلك من خلال المشاركة في الاستبيان، وقد كان قوام العينة 218 استبانة فقط، وكانت تلك الاستبانات قابلة للتحليل، وتمّ إجراء تحليل تلك البيانات واختبار الفرضيات باستخدام برنامجي (SPSS) و (PLS-SEM). وأظهرت النتائج أنّ هناك علاقة إيجابية ذات دلالة إحصائية بين جودة الخدمة والمحافظة على العملاء، وبين جودة الخدمة والشعور الاستهلاكي الإيجابي. وإضافة إلى ذلك فقد أثبتت النتائج أنّ هناك علاقة سلبية بين جودة الخدمة والشعور الاستهلاكي السلبي، وكذلك بين الشعور الاستهلاكي السلبي والمحافظة على العملاء. كما أثبتت النتائج أيضاً بالمقارنة بين ثلاثة متغيرات: جودة الخدمة، والشعور الاستهلاكي الإيجابي والشعور الاستهلاكي السلبي أنّ الشعور الاستهلاكي الإيجابي له التأثير الأكبر في المحافظة على العملاء. وعليه فإنّ نتائج هذه الدراسة تظهر مجموعة من الآثار والإسهامات القيمة من الجانبين الإداري والأكاديمي على حدّ سواء.

## APPROVAL PAGE

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## DECLARATION

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*This dissertation is dedicated to my beloved parents*

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# TABLE OF CONTENTS

|  |           |
|--|-----------|
| Abstract .....   | ii        |
| Abstract in Arabic .....                                       | iii       |
| Approval Page .....  | iv        |
| Declaration .....  | v         |
| Copyright .....  | vi        |
| Dedication .....   | vii       |
| Acknowledgements .....   | viii      |
| List of Tables .....   | xii       |
| List of Figures .....  | xiii      |
| List of Abbreviations .....                                    | xiv       |
| <b>CHAPTER ONE: INTRODUCTION .....</b>                         | <b>1</b>  |
| 1.1 Background of Study .....                                  | 1         |
| 1.2 Statement of the Problem.....                              | 3         |
| 1.3 Research Questions.....                                    | 5         |
| 1.4 Research Objectives.....                                   | 5         |
| 1.4.1 General Objective .....                                  | 6         |
| 1.4.2 Specific Objectives .....                                | 6         |
| 1.5 Significance of Study.....                                 | 6         |
| 1.6 Definition of the Terms .....                              | 8         |
| 1.6.1 Customer Retention.....                                  | 8         |
| 1.6.2 Service Quality.....                                     | 8         |
| 1.6.3 Positive Consumption Emotion .....                       | 8         |
| 1.6.4 Negative Consumption Emotion.....                        | 8         |
| 1.7 Scope of Study.....  | 8         |
| 1.8 Organization of Chapters.....                              | 9         |
| 1.9 Chapter Summary .....                                      | 9         |
| <b>CHAPTER TWO: LITERATURE REVIEW .....</b>                    | <b>11</b> |
| 2.1 Introduction.....  | 11        |
| 2.2 Customer Retention .....                                   | 11        |
| 2.3 Service Quality .....                                      | 13        |
| 2.4 Consumption Emotions .....                                 | 16        |
| 2.4.1 Positive Consumption Emotion .....                       | 18        |
| 2.4.2 Negative Consumption Emotion.....                        | 20        |
| 2.5 Hypotheses Development and Conceptual Framework.....       | 21        |
| 2.5.1 Service Quality and Positive Consumption Emotion.....    | 21        |
| 2.5.2 Service Quality and Negative Consumption Emotion .....   | 23        |
| 2.5.3 Service Quality and Customer Retention.....              | 24        |
| 2.5.4 Positive Consumption Emotion and Customer Retention..... | 25        |
| 2.5.5 Negative Consumption Emotion and Customer Retention..... | 26        |
| 2.6 Mehrabian and Russell's Model .....                        | 28        |
| 2.6.1 Proposed Research Model.....                             | 29        |
| 2.7 Chapter Summary .....                                      | 30        |

|   |               |
|---|---------------|
| <b>CHAPTER THREE: RESEARCH METHODOLOGY .....</b>  | <b>32</b>     |
| 3.1 Introduction.....   | 32            |
| 3.2 Research Design .....   | 32            |
| 3.3 Measurement and Measures .....  | 33            |
| 3.3.1 Operationalisation of the Constructs.....   | 34            |
| 3.3.1.1 Customer Retention .....  | 34            |
| 3.3.1.2 Service Quality .....   | 35            |
| 3.3.1.3 Positive Consumption Emotion .....  | 37            |
| 3.3.1.4 Negative Consumption Emotion .....  | 38            |
| 3.3.2 Measurement Scales.....   | 39            |
| 3.4 Data Collection .....   | 39            |
| 3.4.1 Questionnaire Design .....  | 41            |
| 3.4.2 Face Validity .....   | 41            |
| 3.4.3 Pre-test .....  | 42            |
| 3.5 Sampling Procedure, Method and Justification .....  | 42            |
| 3.5.1 Target population .....   | 43            |
| 3.5.2 Sampling Technique .....  | 43            |
| 3.5.3 Sample Size.....  | 44            |
| 3.6 Data Analysis.....  | 45            |
| 3.6.1 Preliminary Data Analysis .....   | 45            |
| 3.6.2 Partial Least Square-Structural Equation Modeling (PLS-SEM) Analysis.....               | 45            |
| 3.6.2.1 Measurement Model Evaluation.....   | 46            |
| 3.6.2.2 Structural Model Evaluation.....  | 47            |
| 3.7 Chapter Summary .....   | 48            |
| <br><b>CHAPTER FOUR: DATA ANALYSIS AND FINDINGS.....</b>                                      | <br><b>49</b> |
| 4.1 Introduction.....   | 49            |
| 4.2 Preliminary Data Analysis .....   | 49            |
| 4.3 Response Rate.....  | 50            |
| 4.4 Descriptive Analysis Result of Respondents Profile .....                                  | 50            |
| 4.5 Descriptive Analysis Result of the Constructs .....                                       | 54            |
| 4.6 PLS-SEM Analysis.....   | 57            |
| 4.6.1 Assessment of the Measurement Model .....   | 57            |
| 4.6.1.1 Internal Consistency Reliability and Convergent Validity.....                         | 57            |
| 4.6.1.2 Discriminant Validity .....   | 60            |
| 4.6.2 Structural Model .....  | 62            |
| 4.6.2.1 The Collinearity Analysis.....  | 63            |
| 4.6.2.2 Hypotheses Testing.....   | 63            |
| 4.6.2.3 Coefficient of determination (R SQUARE) .....   | 67            |
| 4.7 Chapter Summary .....   | 68            |
| <br><b>CHAPTER FIVE: DISCUSSION AND CONCLUSION.....</b>                                       | <br><b>69</b> |
| 5.1 Introduction.....   | 69            |
| 5.2 The Research Questions Discussion.....  | 69            |
| 5.2.1 What is the relationship between service quality and positive consumption emotion?..... | 69            |

|       |  |    |
|-------|--|----|
| 5.2.2 | What is the relationship between service quality and negative consumption emotion?.....  | 71 |
| 5.2.3 | What is the relationship between service quality and customer retention? .....   | 71 |
| 5.2.4 | What is the relationship between positive consumption emotion and customer retention?.....   | 73 |
| 5.2.5 | What is the relationship between negative consumption emotion and customer retention?.....   | 73 |
| 5.2.6 | In retaining customers in the airline industry, which factors; service quality, positive consumption emotion or negative consumption emotion exerts the most influence?..... | 74 |
| 5.3   | Contribution and Implications .....  | 75 |
| 5.3.1 | Theoretical contribution.....  | 75 |
| 5.3.2 | Managerial implications.....   | 76 |
| 5.4   | Limitations .....  | 77 |
| 5.5   | Direction for Future Research .....  | 78 |
| 5.6   | Conclusion .....   | 79 |

**BIBLIOGRAPHY ..... 80**

|                      |   |            |
|----------------------|---|------------|
| <b>APPENDIX I:</b>   | <b>COVER LETTER .....</b>   | <b>95</b>  |
| <b>APPENDIX II:</b>  | <b>SELECTED STUDIES ON CUSTOMER RETENTION .....</b>                     | <b>101</b> |
| <b>APPENDIX III:</b> | <b>SELECTED STUDIES ON SERVICE QUALITY .....</b>                        | <b>103</b> |
| <b>APPENDIX IV:</b>  | <b>ELECTED STUDIES ON CONSUMPTION EMOTIONS.....</b>                     | <b>106</b> |
| <b>APPENDIX V:</b>   | <b>RESULT OF CHECKING THE OUTLIER .....</b>                             | <b>108</b> |
| <b>APPENDIX VI:</b>  | <b>CONSTRUCT RELIABILITY AND VALIDITY .....</b>                         | <b>110</b> |
| <b>APPENDIX VII:</b> | <b>THE MEASUREMENT MODEL (CONSTRUCT RELIABILITY AND VALIDITY) .....</b> | <b>111</b> |

## LIST OF TABLES

|            |  |    |
|------------|--|----|
| Table 2.1  | Selected Studies and Measurement of Consumption Emotions       | 18 |
| Table 2.2  | Summary of the Research Hypotheses                             | 30 |
| Table 3.1  | Source of Construct Measurement                                | 33 |
| Table 3.2  | Measurement items for Customer Retention                       | 35 |
| Table 3.3  | Measurement items for Service Quality                          | 36 |
| Table 3.4  | The measurement items for Positive Consumption Emotion         | 37 |
| Table 3.5  | The measurement items for Negative Consumption Emotion         | 38 |
| Table 3.6  | Measurement Items Modification                                 | 42 |
| Table 4.1  | Response Rate  | 50 |
| Table 4.2  | Demographic characteristic of respondents (n= 218)             | 51 |
| Table 4.3  | Names of airline chosen by respondents                         | 52 |
| Table 4.4  | Frequency of travelling (per year).                            | 52 |
| Table 4.5  | Airlines which the respondents have experience travelling with | 53 |
| Table 4.6  | The purpose of your last trip.                                 | 53 |
| Table 4.7  | The most important factor of flying with the chosen airline    | 54 |
| Table 4.8  | Descriptive Statistics for Items and Constructs                | 55 |
| Table 4.9  | Construct Reliability and Validity                             | 60 |
| Table 4.10 | Discriminant validity of the study constructs                  | 61 |
| Table 4.11 | Items cross loading  | 62 |
| Table 4.12 | Collinearity statistic VIF                                     | 63 |
| Table 4.13 | Hypotheses Testing Result                                      | 63 |
| Table 4.14 | R square   | 67 |
| Table 5.1  | The result of testing hypotheses H3, H4 and H5                 | 74 |

## LIST OF FIGURES

|            |  |    |
|------------|--|----|
| Figure 2.1 | Mehrabian and Russell's Model                                | 29 |
| Figure 2.2 | Research Framework   | 30 |
| Figure 3.1 | Structure of Research Design                                 | 40 |
| Figure 4.1 | Final Measurement Model (Construct Reliability and Validity) | 59 |
| Figure 4.2 | Structural model (Path Coefficient and P-values)             | 64 |

## LIST OF ABBREVIATIONS

|          |   |
|----------|---|
| $\alpha$ | Cronbach's Alpha                                  |
| AVE      | Average Variance Extracted                        |
| CE       | Consumption Emotion                               |
| CR       | Composite Reliability                             |
| CR       | Customer Retention                                |
| VIF      | Variance Inflation Factor                         |
| IATA     | International Air Transport Association           |
| KLIA1    | Kula Lumpur International Airport One             |
| KLIA2    | Kula Lumpur International Airport Two             |
| LV       | Latent Variable                                   |
| MAIR     | Malaysia Aviation Industry Report                 |
| NCE      | Negative Consumption Emotion                      |
| PAD      | Pleasure, Arousal, Dominance                      |
| PCE      | Positive Consumption Emotion                      |
| PLS-SEM  | Partial Least Square-Structural Equation Modeling |
| SQ       | Service Quality                                   |

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 BACKGROUND OF STUDY**

Customer retention seems to be a matter of great concern to most key decision makers in most companies (Han & Hyun, 2015). The modern business environment is characterized by rampant business failure as seen in low profits, low growth, poor image, and stiffening competition in every industry (Ali, Fu, & Rehman, 2014). Industries are increasingly getting amorphous – borderless; globalization yielding new realities and influences; challenges of satisfying human resource and so forth (Arokiasamy, 2013; Naidoo, 2010). Customer retention guarantees company growth as retained customers pose low cost of operation and acquiring new customers is very expensive (Al-Jader & Sentosa, 2015; Hundre, Kumar, & Kumar, 2013; Mostert, DeMeyer, & Van Rensburg, 2009). Airline industry around the globe is like any other industries, it experiences challenges of customer retention in both cargo and passenger operations. Further, 2015 was another very difficult year for air cargo. Growth has slowed and revenue has fallen. In 2011 air cargo revenue peaked at \$67 billion. In 2016, “we are not expecting revenue to exceed \$51 billion”, said Tony Tyler (2016), CEO/ Director General, International Air Transport Association (IATA).

IATA reports that, globally, cargo volumes had expanded by 2.2 percent in 2015 compared to 2014. Though there was growth, it was rather a slower pace growth compared to the five percent growth in 2014. This weakness indicates sluggish trade trend in many parts of the globe, particularly in Europe and Asia-Pacific (IATA, 2016). To put the need for customer retention into airline perspective, it is important to highlight the importance of the industry in the entire economy. The airline industry

of any economy around the world plays an important role in the development of the economy (MAIR, 2016). Airline industry equally shapes other industries and sectors of the economy. Commercial airline industry sector is particularly impactful on tourism, trade and hospitality.

Over the last three decades, the airline industry has experienced one of the most remarkable developments. This period witnessed high growth rates and stiff competition (IATA, 2015). This is probably due to liberalization whereby one airline can open a number of international routes. Nearly all national economies have their own national carriers. In addition, a number of other commercial airlines equally developed within the same economy. These developments inevitably have created stiff competition in the industry.

Another sensitive issue that the airline industry has suffered from is terrorism and accidents. A number of aircraft hijacking, shoot downs like the Malaysian Airlines that was shot in Ukraine (Hankins, 2016), as well as a Russian civilian aircraft carrying tourists was gunned down over Sinai in Egypt (MacFarquhar & Thomas, 2015). Further, the 2014 financial year turned out to be a tough year for the Malaysian aviation sector, particularly after the strong growth experienced in the 2013 financial year. There was a slowdown in passenger traffic and commercial aircraft movements in the financial year 2014, mainly due to slower growth in domestic and foreign tourist arrivals. Recent fatal air accidents of Malaysia Airlines flight MH370 and MH17, as well as Indonesia AirAsia flight QZ8501, added to the woes of the airline industry (MAIR, 2016). All these cases seem to have left airlines users to be indifferent. This situation of indecisiveness amongst travelers has had a lot of impact on customer retention in the airline business. Coupled with stiff competition, airlines seem to experience a reducing number of customers. Passengers do not seem to have a



reliably preferred airline that they can think of whenever they travel. Passengers only have transactional rather than relational encounters with any airlines. This lack of customer retention creates uncertainty in business operations. Strategic growth of the company may be disturbed.

## **1.2 STATEMENT OF THE PROBLEM**

The airline industry has been struggling with many challenges including cutting costs, managing fluctuating demand, keeping up with tight quality requirements while trying to maintain superior services and satisfy the needs of various customer groups (Baker, 2013). Specifically, the airline companies are experiencing aggressive competition due to the low cost of the emergence carriers (Trejos, 2014; Jan, Abdullah, & Smail, 2013); the rapid advancements in technology (Al-Jader & Sentosa, 2015); and superior service quality being offered by some airlines (Mazzeo, 2003). These issues have caused customers to keep switching from one airline to another.

Generally, customers in the airline industry do not seem to have reliably fixed trust in one preferred airline whenever they have to travel (Bejou & Palmer, 1998). As of now, whenever one has to travel, the customer always wants to try another airline instead of sticking to one. Yet the ideal situation should have been that whenever a customer has to travel or has any need to use air transport system, such customer should automatically be able to know where and which airline to use (Campbell & Vigar-Ellis, 2012). This trend is caused by a number of factors which include among others; the previous poor consumption experience (Jang & Namkung, 2009).

Furthermore, some airlines suffer from poor services, such as poor check-in services, issues with reservations and ticketing, flight delays, issues with flight schedule, which leaves customers extremely agitated and dissatisfied (Petzer, Meyer,

Svari, & Svensson, 2012; Ali, 2007). Normally, when customers are dissatisfied, they often tend to switch to other service providers (Chang & Chang, 2010). This lack of capacity to retain customers has many implications on the part of airlines such as the need to incur extra costs to recruit or search for new customers (Jahromi, Stakhovych & Ewing, 2016; Mostert et al., 2009).

In addition, some research has been done related to customer retention (CR) in a wide range of industries across economies in the world. The most cited reason for research attention in customer retention (CR) is the ever changing consumer behaviour and difficulties and high cost of recruiting new customer (Lewis, 2006; Reinartz, Thomas, & Kumar, 2005). Although researchers bring about possible different determinants of customer retention in different perspectives and industries, such as perceived service quality and consumption emotions (Syaqirah & Faizurrahman, 2014), satisfaction, trust and price reasonableness (Han & Hyun, 2015), customer satisfaction, perceived value and brand image (Hussain, Al-Nasser, & Hussain, 2015), relational investment and solidarity (Othman & Is' haq, 2015), switching barriers observed as some possible customer retention determinants (Tamuliene & Gabryte, 2014; Trasorras, Weinstein, & Abratt, 2009; Ranaweera & Prabhu 2003); it is not yet clear as to what actually brings about acceptable level of customer retention as researchers seem to lack coordination of possible issues that explain the concept. Thus, there is a general need to examine the factors which could influence customer retention, particularly in the context of the airline industry.

Although most studies mention service quality as the main established factor which could help firms to retain their customers (Han & Hyun, 2015; Syaqirah & Faizurrahman, 2014; Trasorras et al., 2009; Venetis & Ghauri, 2004), besides service quality, few literatures have found that consumption emotion also plays a key role in

influencing customer repurchase decisions (Romani, Grappi, & Dalli, 2012; Faullant, Matzler, & Mooradian, 2011; Han & Back, 2007). However, not many empirical studies pay attention to the influence of consumption emotion, especially in relation to the airline industry. Therefore, this study sought to examine the influence of service quality, positive and negative consumption emotion on customer retention, particularly in the context of the airline industry.

### **1.3 RESEARCH QUESTIONS**

The research questions are as follows:

1. What is the relationship between service quality and positive consumption emotion?
2. What is the relationship between service quality and negative consumption emotion?
3. What is the relationship between service quality and customer retention?
4. What is the relationship between positive consumption emotion and customer retention?
5. What is the relationship between negative consumption emotion and customer retention?
6. In retaining customers in the airline industry, which factor; service quality, positive consumption emotion or negative consumption emotion exerts the most influence?

### **1.4 RESEARCH OBJECTIVES**

This study has general objective and specific objectives are as follows:

### **1.4.1 General Objective**

The general objective of this study is to identify and examine the influence of service quality, positive consumption emotion and negative consumption emotion on customer retention in the airline industry.

### **1.4.2 Specific Objectives**

Specifically, the research objectives of this study include the following:

1. To examine the relationship between service quality and positive consumption emotion.
2. To examine the relationship between service quality and negative consumption emotion.
3. To investigate the relationship between service quality and customer retention.
4. To examine the relationship between positive consumption emotion and customer retention.
5. To examine the relationship between negative consumption emotion and customer retention.
6. To determine which factor among service quality, positive consumption emotion, negative consumption emotion influences customer retention the most in the airline industry.

## **1.5 SIGNIFICANCE OF STUDY**

Customer retention brings about good word-of-mouth, stimulates repeat purchases, customer loyalty, and brings the possibility of the low cost of operation (Bolton, Kannan, & Bramlett, 2000). Available airline industry literature suggests that

customer retention is a great challenge because if customers keep switching to other service providers, that could obstruct the strategic growth of the industry. Most explanations for customer retention have been attributed to service quality (Trasorras et al., 2009); customer trust, organisational image and service quality (Ali & Amin, 2014); and several other antecedents including calculative commitment, dependence, interpersonal relationships, interactional, distributive and procedural justices (White & Yanamandram, 2007). Despite the rigorous identification of the customer retention factors, the airline industry still suffers challenges of customer retention. This study will make a contribution to the customer retention research especially in airline industry from two sides which are academic and managerial.

From the academic side, it will add more literature onto existing body of knowledge, especially on factors that enhance customer retention. For this study, the incorporation of service quality, positive consumption emotion and negative consumption emotion variables will examine the theory in other contexts. It will explain service quality, positive consumption emotion and negative consumption emotion as the main determinants of customer retention in airline context. Further, it will explain the influence of positive and negative consumption emotions on customer retention because there are only a few studies that have been done that examined consumption emotions, either positive or negative, in other service industries such as restaurant and hotels.

From the managerial side, this would enable the managers in the airline industry to gain insight into how customers could be retained. Economically, success in satisfying airline customers would attract more customers and make the airline companies gain competitive edge in the industry. Particularly, it is hoped that the

findings of this study will help managers to further understand that besides service quality, consumption emotions also plays a role in retaining customers.

## **1.6 DEFINITION OF THE TERMS**

### **1.6.1 Customer Retention**

Customer retention is customer's commitments to rebuy or continuously repeat purchase for the airline services (Oliver, 1999).

### **1.6.2 Service Quality**

Service quality is the consumer's opinion and assessment of the ability of the airline services to fulfil their consumption expectations (Parasuraman, Zeithaml, & Berry, 1985).

### **1.6.3 Positive Consumption Emotion**

Positive consumption emotion is favourable experiences and feelings of the customers with the airline services such as joy and happiness (Westbrook & Oliver, 1991).

### **1.6.4 Negative Consumption Emotion**

Negative consumption emotion is unfavourable experiences and feelings of the customers with the airline services such as anger and fear (Tronvoll, 2011).

## **1.7 SCOPE OF STUDY**

The study is limited to examine service quality and consumption emotions (positive and negative) as the main variables that contribute to customer retention. The study also selected respondents who travelled using national airlines only. The research too is a cross-sectional study that collected the data at one specific point in time.

## **1.8 ORGANIZATION OF CHAPTERS**

This study contains five chapters. Chapter one presents the introduction of the study, starting with the background of the study, followed by the statement of the problem, research questions, research objectives, significance of the study, the definition of the terms, the scope of the study and finally chapter summary. The second chapter comprises of a review of previous studies on customer retention, service quality and consumption emotions. It also discusses the relationship between those variables leading to the development of the hypotheses and the research framework and the summary of the chapter. The third chapter discusses the research methodology. Chapter three also presents the research design, measurement and measure, data collection, sampling procedure methods, data analysis and chapter summary. Chapter four reports the findings of the data analysis in which the researcher has used SPSS and smart PLS-SEM for the data analysis and testing the hypotheses. Finally, chapter five will discuss the main findings and research questions. This will be followed by the implications and contribution for the airline companies, and closing with limitations, direction for future research and conclusion.

## **1.9 CHAPTER SUMMARY**

This chapter consists of nine sections. The first section explains the background of this study, which looks at the airline industry across the world. The second section explains the research problem, also highlighting the key research gaps. The third section provides the research questions; whereas section four provides the research objectives which are divided into general objective and specific objectives. Section five discusses the significance of the study followed by section six in which the researcher gives brief definitions of the terms which are used in this study. The scope

of the study is presented in section seven. The organization of the chapters is highlighted in section eight. Finally, section nine is where the researcher reviews and summaries chapter one.