

The Impact of Service Quality on Customer Retention in Airline Industry of Bhutan

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Abstract: The aim of this study is to examine the impact of service quality on customer retention in the airline industry in context of Bhutan. Data was collected using fully structured questionnaires. The random sampling technique was used to collect the data and it covered 382 respondents on international flights of Drukair Royal Bhutan Airlines (Drukair) at Paro International Airport. The Statistical Package for Social Sciences (SPSS 17) was used to analyze the data. To test the hypothesis regression analysis was performed. The results indicated that the service quality have positive and significant relationship with customer retention. It is suggested that Drukair and airline industry practitioners can consider improving service quality to retain their customers.

Key words: Service quality, customer satisfaction, customer retention, drukair, airline industry, Bhutan

INTRODUCTION

Airlines play an important role in economic development of a country. Delivery of high quality of service has therefore become a marketing requirement among air carriers as a result of competitive pressure. In a highly competitive environment, the provision of high quality services to passengers is the core competitive advantage for an airline's profitability and sustained growth, airlines have turned to focus on service quality to increase service satisfaction as the air transportation market has become more challenging (Archana and Subha, 2012).

Satisfied customers form the foundation of any successful business as customer satisfaction leads to repeat purchase, brand loyalty and positive word of mouth promotion (Angelova and Zekiri, 2011). Because of competitiveness, the reaction carried out by one of the airlines will cause a reaction from the other airline. For example, if one of the airlines to lower ticket prices, then the others that are affected in the airline is to join the lower ticket prices (Mahmud *et al.*, 2013). However, it is always better to provide high quality of service as some customers will prefer quality service than low airfare.

With rising customer acquisition costs, airlines need to be innovative and starts taking a proactive role in retaining their customers as (Timm, 2005) stated that acquiring new customer is expensive than the cost incurred for retaining existing customers. Service quality conditions influences a firm's competitive advantage by retaining customer patronage, hence, delivering high quality service is essential for airline survival and airlines must understand exactly what passengers expect from

their services (Archana and Subha, 2012). Therefore, it is crucial for airlines to understand changing customer needs and develop suitable strategies such as adopting latest information technology system to improve service quality competing effectively with global market.

The airline industry in Bhutan: Bhutan is a small and landlocked country located in the eastern Himalayas with a total land area of 38,394 km² and a population of 683,407 (census, 2009). Air transport is important to the nation as it plays a vital role in the economic development of the country. The airline industry was established by royal decree in 1981 and Bhutan's national carrier Drukair royal Bhutan Airlines (Drukair) began operations in 1983. For the last three decades, Drukair was the only airline in Bhutan. However, the government has been encouraging competition and Bhutan Airlines (Tashi Air Pvt. Ltd.) started operating for domestic service initially and in October 2013 started operating in international sectors. Since Tashi Air Pvt. Ltd. is very new in the industry, it is not included in this study.

The purpose of this study was to examine the relationship of service quality with customer retention. More specifically, this study is guided by the following research questions:

- What are the relationships between service quality, customer satisfaction and customer retention?
- Does customer satisfaction mediate the relationship between service quality and customer retention?

Literature review and hypotheses service quality: The delivery of high-quality service becomes a marketing

requirement among air carriers as a result of competitive pressure (Ostrowski *et al.*, 1993). Khraim (2013) also pointed out that there is significant effect of service quality on customer behavioral intentions and recommended that Airlines companies should maintain good service quality they offer for their passengers as it is internationally compared with other airlines and it is considered competitive in the airline market field.

Angelova and Zekiri (2011) stated that understanding customer satisfaction with service quality is very important and challenging. However, companies can benefit from the fact of knowing how customers perceive their service quality and knowing the way of how to measure service quality (Angelova and Zekiri, 2011). In this study, service quality is comprised of the five dimensions of SERVQUAL, i.e., tangibles, reliability, responsiveness assurance and empathy adopted from Parasuraman *et al.* (1988).

In addition to SERVQUAL related studies, many scholars have measured airline service quality through various quality dimensions such as the processing of luggage, seat cleanliness, the check-in process, the convenience of transit, timeliness and handling of customer complaints as standards of service quality. This study also adopts similar quality dimensions to form 22 items of SERVQUAL questionnaires. Service quality can be defined as a consumer's overall impression of the relative efficiency of the organization and its services.

Caruana (2002) found service quality as an important input to customer satisfaction and it is the key to measure user satisfaction. Sureshchandar *et al.* (2002) identified that service quality and customer satisfaction were highly related. Spreng and Mackoy (1996) found that service quality leads to customer satisfaction. From the service marketing point of view, the way to retain customers is to improve customer service quality and satisfaction (Ahmad and Buttle, 2002). Saeed *et al.* (2003) concluded that post sales services are the important drivers for customer retentions. It is important for product/service provider to emphasis on the quality of product and service and successful customer retention starts with the first contact an organization has with a customer and continues throughout the entire lifetime of a relationship or longer relationships (Saeed *et al.*, 2003).

Therefore, this study explored the importance of service quality in customer retention by following hypotheses:

- H₁: service quality is positively and significantly related with customer satisfaction
- H₂: service quality is positively and significantly related with customer retention

Customer satisfaction: Customer satisfaction can be defined as meeting of their expectations creating good

impression on service provider or organization. It is important for the service companies to know the relationship of service quality and satisfaction and must monitor service quality and satisfaction to study the behavioral intentions of their customers. In order to survive in the world of globalization today, understanding and meeting customers' expectation has become crucial to success and to be different from the competitors.

Customer satisfaction is the overall customer attitude towards a service provider. Today's customers are very well educated and more demanding in the products and the services they require as they have exposure to a variety of information, more familiar with the present trends in technology. Shukla (2013) stated that in today's world, intern lows customers to easily make a comparison through information and price transparency and switch to other airline service. So, it is very important to satisfy customers nowadays.

It is considered that higher the satisfaction, higher is the level of retention and almost every firm are focusing on managing and increasing customer satisfaction (Ranaweera and Prabhu, 2003). Furthermore, Lin and Wu (2011) stated that there is statistically significant relationship between quality commitment, trust and satisfaction and customer retention and future use of product as retention is influenced by future use of product.

Ranaweera and Prabhu (2003) have found customer satisfaction have stronger effect on customer retention comparing with the trust. Therefore, customer satisfaction serves as an exit barrier, helping a firm to retain its customers (Fornell, 1992). Higher the level of customer satisfaction, greater is their retention (Anderson and Sullivan, 1993).

Hence, this study tested the relationship of customer satisfaction and customer retention by following hypotheses:

- H₃: customer satisfaction is positively and significantly related with customer retention
- H₄: customer satisfaction mediates the relationship between service quality and customer retention

Customer retention: Customer retention is about increasing the sales by endlessly satisfy and serve the customers, so they will keep coming back (Farquhar, 2005). Most researchers agree on the importance of retention as a key driver of a firm's profitability since, retaining cost is less than acquiring new customers and it is repeatedly treated as a critical component in customer profitability models (Gupta *et al.*, 2006). Furthermore, customer retention is increasingly being seen as an important managerial issue, especially in the context of saturated market or lower growth of the number of new customers (Ahmad and Buttle, 2002).

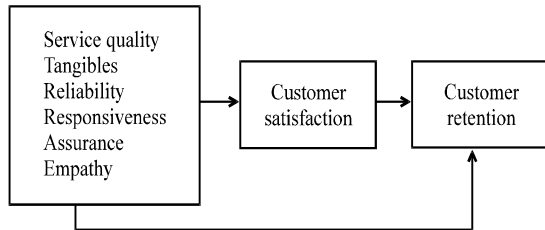


Fig. 1: The conceptual framework drawn from the literature review

Gerpott *et al.* (2001) defined customer retention, “it is the continuity of the business relations between the customer and company”. Ranaweera and Prabhu (2003) define customer retention as the future propensity of a customer to stay with the service provider. Drawing on these references, customer retention can be defined as the attitude or feelings of the customer that they want to continue their relationship with the service provider. Figure 1 indicates the conceptual framework drawn from the literature review. Parasuraman *et al.* (1988) defined each dimensions as below:

- Tangibles: these are the physical aspects of service delivery; physical facilities, equipment, appearance of personnel and communication materials
- Reliability: the service provider’s ability to perform the promised service dependably and accurately
- Responsiveness: provider’s willingness to help customers and provide prompt service
- Assurance: knowledge and courtesy of employees and their ability to inspire trust and confidence
- Empathy: caring, individualized attention the firm provides its customers. The definition of Parasuraman *et al.* (1988) is used in this study

MATERIALS AND METHODS

The structured questionnaire with 5 points Likert scales with anchors “strongly disagree” to “strongly agree” were used in this study. Since, 5 points Likert scale is used widely, especially in business context, researcher felt it is appropriate to use same for this study. The data was collected by randomly distributing the questionnaire to the passengers who were waiting for their flights at the departure lounge at Paro International Airport. After collecting the data, a statistical package for social sciences (SPSS, 17 Versions) was used for analyzing the data and regression analysis was performed to test the hypotheses.

RESULTS AND DISCUSSION

The gender distribution of the respondents was 54.5% were female and 45.5% were male. The

Table 1: Regression result (unstandardized coefficients B)

Independent variables	B
Service quality	0.196*
Customer satisfaction	0.312**
R ²	0.201
R	0.448

*, **Level of significant at $p < 0.05$, 0.001; dependent variable: customer retention

382 respondents, 67% were foreigners and 33% were Bhutanese. Most of the respondents were between the age group of 20-30 and 31-40 years. The 62% stated that they flew with Drukair at least once in last 6 months. The reliability of data was assessed by using Cronbach’s alpha value in which the alpha value was 0.91 (Table 1).

The regression result showed that service quality has a positive and significantly related with customer satisfaction and customer retention supporting hypothesis 1 and 2. It was found that customer satisfaction has a positive and significant relationship with customer retention supporting hypothesis 3. Again, customer satisfaction mediates between the relationship of service quality and customer retention supporting hypothesis 4. Baron and Kenny (1986)’s three conditions for mediation were used to test the mediating effect of passenger satisfaction: in the first condition, the independent variable must affect the mediator; the independent variable affect the dependent variable in the second condition in third condition, the mediator must affect the dependent variable.

CONCLUSION

Since, items to measure the variables are adopted from previous studies, it can also be implemented to other airline companies. The purpose of this study was to explore the impact of service quality on customer satisfaction and customer retention. Consistent with previous studies (Ahmad and Buttle, 2002; Anderson and Sullivan, 1993; Caruana, 2002; Ranaweera and Prabhu, 2003; Saeed *et al.*, 2003), service quality played important role in retaining customers. The results indicated that the service quality have positive and significant relationship with customer retention. It is suggested that airline industry practitioners can consider improving service quality to retain their customers.

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